FOREIGN DIRECT INVESTMENT OF CHINESE SMEs IN THE FREE STATE

By

Emmanuel Fru Ngam

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Study Leader: Prof. A.v.A. Smit

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ABSTRACT

According to the Global Entrepreneurship Monitor survey, South Africa has a low early stage entrepreneurial activity rate of 7.8%, which is significantly lower than the average for all efficiency-driven economies (11.4%) as well as the average for all middle to low income countries (13.2%).Also, high levels of poverty, income inequality and unemployment are major issues that impact the economic growth of South Africa. Pahad (2008) acknowledged that South Africa's social-economic goals are to reduce inequalities, reduce wealth and asset gaps between rich and poor, halve unemployment by 2014 and meet the Millennium Development Goals. However, one way of solving these issues is to encourage more foreign SMEs as they are capable of providing investment injections in various sectors of South Africa's economy, such as agriculture, industry, education, and health. Likewise, these foreign SMEs can help eradicate poverty, improve employment and reduce income inequality and wealth disparity between the rich and poor.

The main objective of this study was to investigate the motives of Chinese SMEs foreign direct investment in the Free State Province (FSP) and their perception about the external business environment in South Africa. The study examine empirically the motives of Chinese SMEs operating in the Free State province and determined if they were driven by the supply/resource-based or the market driven factors. The study also identified the external environmental factors which can hinder foreign SMEs from investment in South Africa.

Across-sectional study using the survey method was used to collect the data. Simple random sampling method and a non-probability snowball sampling method were used to determine the sample size of Chinese SMEs in the Free State province. A standard questionnaire was designed after a detailed literature review of the business environment and foreign SMEs investments. Data was gathered through self-administered questionnaires. The specific methods of data analyses used include descriptive statistics, cross-tabulations, frequency tables and T-tests. Reliability was tested using the Cronbach's Alpha. Pre-testing the research instrument in a pilot study was used to determine the validity of the research.

The research findings showed that the motives of the Chinese SMEs foreign direct investment in the Free State was predominantly market-seeking FDI. The findings also showed that the many external factors were impacting the operation of the foreign businesses negatively with crime, corruption, labour regulations and xenophobia being reckoned as the main external factors severely impacting the businesses. In addition, the Chinese SMEs had a negative perception about the external business environment of South Africa with 86% of them indicating that they had suffered from crime. Furthermore, the empirical findings revealed that SMEs in the manufacturing sector employed the highest number of employees and have stayed in SA for a longer period. Similarly, most of the exporters were in the manufacturing sector. However, the majority of those who were unsatisfied about their investment decisions and were willing to leave South Africa were in the manufacturing sector.

The study provided some recommendations to improve the external business environment of SA so that more effective and efficient FDI is attracted. The recommendations include the need to improve the fight against crime as it is seen as the number one factor impacting and deterring away FDIs from SA. To attract sufficient supply/resource-based FDI, the government also needs to improve its labour regulations, thus easing the hiring process. To add, South Africa has to make its legal system more efficient by shortening the long procedures and duration of court judgments as well as making it more affordable. A better legal system can reduce crime, corruption and unethical behaviour.

DECLARATION

I, the undersigned, Emmanuel Fru Ngam, hereby declare that the thesis is my own original work and that it has not been submitted, and will not be presented at any other University for a similar or any other degree award.

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Signature

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Date

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GLOSSARY OF TERMS AND ABBREVIATIONS

AEO:	African Economic Outlook
BRIC:	Brazil, Russia, India and China
GDP:	Gross Domestic Product
GEM:	Global Entrepreneurship Monitor
FDI:	Foreign Direct Investment
MNE:	Multinational Enterprises
NEPAD:	The New Partnership for Africa's Development
OECD:	Organisation for Economic Co-Operation and Development
RSA:	Republic of South Africa
SMEs:	Small and Medium size Enterprises
TEA:	Total early-stage Entrepreneurial Activity
TNC:	Transnational Companies
UNIDO:	United Nations Industrial Development Organization
UNCTAD:	United Nations Conference on Trade and Development
WEF:	World Economic Forum
WIR:	World Investment Report

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1.INTRODUCTION

This study is embarking on investigating the motives of Chinese SMEs investing in the Free State province and their perception about the external business environment of South Africa. This study will analyse the various factors in the business environment that scare away foreign investors and will suggest how to improve the external business environment so that more foreign investors can be attracted to boost the economic development. Also, understanding the motives of these Chinese SMEs owners will help determine their reasons for investment. Knowing the reasons for investment will help in identifying the type of investment to attract that will bring growth and sustainability in the economy.

The first chapter of this study will present a broad overview of the study. Specifically, the following areas will be outlined: the background of the study, the problem statement, the research objectives and the significance of the research. This chapter will in addition, describe the research methodology, the limitations of the study and the layout of the study.

1.2.BACKGROUND OF THE STUDY

Over the past years Africa has been attracting a good number of foreign direct investments (FDI) even though not much as compared to other emerging economies like Brazil, Russia, India, and China (BRIC). But these few FDI have not impacted the African economies as it is expected. Also, the discussion on the economic consequences of inward foreign direct investment (FDI) in the host economy (South Africa) is becoming an issue which has received considerable new attention due to the random foreign investment by Chinese businesses in Africa (Shimbun, 2007:1). Therefore, looking into the type of FDI to be attracted in South Africa will be of great importance.

There are two very different motives for FDI, namely supply (resource) based and market driven FDI (Agarwal, 1996). The aim of the supply based driven type is to acquire some particular resources at a lower cost than at home. It is assumed that for the African countries these

resources consist primarily of natural resources and cheap labour which could lead to 'relocation' and increasing (re)imports from the host country. This type of investment is also efficiency seeking as it usually takes place in labour and natural resource, thus intensive sectors. The second type of investment (market driven FDI) depends on the expectation of new sales opportunities. Market based investment is often influenced by strategic considerations too. Such investment usually creates additional exports of inputs such as machinery and intermediate goods/final goods to the related foreign affiliate. Also this market based investment is to gain an important stake in the foreign market over the long run (Kurz And Wittke, 1997).

In Sub-Saharan Africa (SSA), FDI is perceived to be mostly driven by natural resources and market size. This is consistent with the fact that the three largest recipients of FDI in 2009 in Sub-Sahara Africa (SSA) were Angola, Nigeria and South Africa. The FDI flow in these three countries made up 65% of flow in SSA (WIR, 2010:32).According to Asiedu (2006:63), the large local market of South Africa represent about 46% of SSA's GDP while that of Nigeria and Angola are 8% and 2% respectively. Nigeria and Angola are oil-producing countries with oil accounting for over 90% of their total export. The breakdown of FDI flow in the Sub-Saharan region is as follows: 36 per cent to South Africa, 16 per cent to Nigeria, 13 per cent to Angola and 19 per cent to the remaining 45 countries.

The objective of any country is for their citizens to have high standards of living. For the citizens to enjoy high standards of living, the country's economy has to produce a variety of goods and services in adequate quantities. Investment capital and advanced technologies are needed to produce these goods and services. Industrially advanced countries known as the Developed Countries, do have the capital and technologies required by their citizens to sustain a high standard of living. However, many countries in other parts of the world lack the required capital or the technologies or both, and they fall in the category of Less Developed Countries (LDCs) or Developing Countries (Cohn, 2005). This therefore implies that for a country to provide a sustainable high standard living to its citizen, it must either produce them or import them from another country. The governments of LDCs often inflict restrictions on the flow of capital or the import of goods into their countries for various reasons, some in the interest of their citizens and others against the wishes or interests of their citizens. Nevertheless, it is important that

governments who are interested in providing a high standard of living for their citizens should allow free flow of capital and goods across their borders (Lee 2005, and Kane et al., 2007).

Considerable attention to date has been paid to China as a host country for internationally expanding investing firms (Huang, 2003). This is understandable in the light of the fact that China has absorbed huge amounts of inward foreign direct investment (FDI) and was the second most popular destination for FDI in the world after the United States in 2009 (WIR, 2010:4). In addition, China's export performance has attracted much comment, not least in the light of its large trade imbalance with the United States and the growing concentration of world manufacturing in Chinese plants. With exports value reaching a high of US$705.09 billion in the first two quarters of 2010, China has become one of the world's largest exporters (MOFCOM, 2010). These are two very significant indications of China's growing integration into the global economy. A third trend has, however, received rather less attention. This is the expansion of outward foreign direct investment (FDI) which has grown rapidly to the point where China has become the world's fifth largest outward direct foreign investor with a total of US$48 billion by the end of 2009 (WIR, 2010:6). This last development points to a growing direct involvement by Chinese firms in activities abroad.

1.3.PROBLEM STATEMENT

A study of cross-border investment flows revealed that South Africa has made the list of the top 25 most attractive destinations for global foreign direct investment. It was ranked 18th in the world in 2008 from a very low base 14 years ago (Ford, 2008:1). This analysis of South Africa being a good attractive destination in the cross-border investment study was conducted among multinational enterprises (MNE) and large companies investing in South Africa. According to Fujita (1997), MNE and large companies have very little impact on job creation and economic development of a country. Therefore, it is important to attract foreign SMEs which will yield more positive spillovers than MNE as they are capable to improve income inequality and increase employment.

The past decade has witnessed a continued increase in the level of investment in Africa by foreign multinational companies (MNCs). This is particularly true as in 2008; FDI flows to developing economies rose by 17% to US$621 billion while in developed economies it fell by 29% to US$962 billion (world investment report, 2009:3). This is as a result of the financial

crisis in 2008. Also, with half of the top 20 recipients of FDI being emerging economies, it therefore shows a symbolic change in FDI landscape. Thus, it is significant to analysis the motives of these inward FDI in the emerging economies like South Africa. As globalization becomes the norm, this trend of increasing foreign direct investment (FDI) is accompanied by several other trends not present a decade ago. Among the more noticeable trends are the directional changes in the flow of direct investment as there is more FDI flow from other developing countries (BRIC) into Africa than before. Also, within the recent past, not only has the level of investment increased, but also the varieties of participants, as SMEs do take part in foreign investments nowadays (Sokoya and Tillery, 2002:65-66).

With most economies still struggling to recover from the financial meltdown in 2008, it is difficult to raise capital from FDI (from large companies). This becomes a serious problem for the economic growth of most developing countries as one of their major sources of capital is FDI. Hence targeting more foreign SMEs will help boost the capital supply. Although developing countries have become more proactive in promoting themselves as viable investment destinations, this does not guarantee the right type of foreign direct investment (Gama, 2004:61).

The South African government has endeavoured to create a stable environment for foreign direct investment with various policy amendments. This is a step in the right direction. However, in its quest to address the ills of the apartheid era and to `level the playing fields', the government has adopted certain policies that tend to keep investors away. Of course, certain measures are necessary to readdress imbalances created in the past, but it seems that the right to regulate the economy in the national interest may clash with the desires and expectations of investors (Gama, 2004:62).

If South Africa tends to target more foreign SMEs rather than big businesses it will yield more positive spillovers than big businesses as foreign SMEs are more capable to attract efficient and marketing-seeking FDI (Musila and Sigue, 2006:579). Acs, Shaver and Yeung (1997:221) argue that smaller firms are better at creating radical innovations, create jobs; improve local market competitiveness and technological skills. Therefore FDI and, more specifically, foreign SMEs, might be an ideal solution to many of these problems.

It is significant to emphasize that the above arguments are complementary rather than mutually exclusive or antagonistic. They show that Africa needs (a) increased investment for higher and sustained growth; and (b) increased productivity of its investment (in terms of domestic and foreign exchange returns) through increased capacity utilization, skilled and technological development as well as other supporting national, regional and international policy measures (Anyanwu, 2006).

The argument of this study is that there are factors in the business environment that influence the investment decision of foreign SMEs either positively or negatively. Understanding the external factors that cause foreign SMEs to operate in South Africa will be vital in improving the business environment and thus attracting more foreign SMEs.

1.4 OBJECTIVE OF THE STUDY

The objective of this study was divided into primary objectives and secondary objectives.

1.4.1 Primary Objective

The main objective of this study was to investigate the motives of Chinese SMEs foreign direct investment in the Free State Province (FSP) and their perception about the external business environment in South Africa. The study examine empirically the motives of Chinese SMEs operating in the Free State province and determined if they were driven by the supply based factors or the market driven factors.

1.4.2 Secondary Objectives

This study was set out to investigate the motives for undertaking foreign investment by analyzing the various business sectors in which the Chinese SMEs invest in. The study determined what motivated these identified foreign investors to enter the SA market. The study also analysed how the Chinese SMEs in the Free State province (FSP) perceive the external environment of doing business in South Africa. The following were the secondary objectives of the study which helped achieved the main objective mentioned above:

- Examine the various motives of FDI.
- To review the advantages and disadvantages of FDI.
- To investigate what motivated the Chinese SMEs to invest in the FSP.

- To investigate the impact of the business environmental variables on Chinese SMEs operating in the FSP.
- To examine how the Chinese SMEs perceive the external environment of South Africa.
- To ascertain the perception of xenophobia amongst Chinese SMEs.
- To assess how the Chinese SMEs perceive the ethics of doing business in SA.

1.5 SIGNIFICANCE OF THE STUDY

With most studies focusing on FDI by MNE in Africa or South Africa, very little research has been conducted about FDI by SMEs in South Africa (i.e. taking the firm size into consideration). This implies that a study such as this which will investigate the motives of SMEs FDI in South Africa and the investment climate will be beneficial to both the RSA government and the investors as they will know the kind of FDI to attract that will contribute to the economic development and a better understanding of the investment climate respectively.

Musila and Sigue´ (2006: 577) points out that for the African continent to attain one of NEPAD's (New Partnership for Africa's Development) goals which is to reach and sustain an average gross domestic product (GDP) growth rate of at least 7 per cent per annum, in order to reduce the share of Africans living in poverty by half by 2015, it had to attract more FDI. Therefore, it is necessary to investigate what the current existing foreign SMEs owners think of the investment climate in RSA, so that it can be improved, thus attracting more FDI.

Foreign investment continues to play a greater role in business activities across the globe. It is therefore important to assess the main trends and reasons behind this increased activities so that businesses can make effective decisions on how they wish to engage in further global expansion. This could be seen as some African nations have become increasingly cautious about China's diplomatic drive. In recent years, China's exports to Africa have greatly exceeded its imports from that part of the world, as shown by a deluge of Chinese clothes and electrical home appliances flooding African markets. This has been coupled with a massive influx of Chinese into Africa because of their country's foreign aid. South African, Zambian and other political leaders in the region have described China's diplomacy as a form of neocolonialism. Such sentiment can be seen in recent incidents, including an anti-China riot in Zambia and the kidnapping of a Chinese engineer in Nigeria (Shimbun, 2007).

According to Kamath (2008:23), foreign capital is treated as a resource gap-filling factor in the context of capital scarcity in the developing countries. In developing countries, FDI is now the principal source of foreign capital. There are good reasons to believe that FDI is preferred to other types of flows. One convincing argument is that FDI consists of package of capital, technology and market access which tend to go to those manufacturing sectors which enjoy actual or potential comparative advantage.

While FDI represents investment in production facilities, its significance for developing countries is much greater. Not only can FDI add to investible resources and capital formation, but, perhaps more important, it is also a means of transferring production technology, skills, innovative capacity, and organisational and managerial practices between locations, as well as of accessing international marketing networks. In addition, the FDI can improve overall growth by promoting competition in the domestic input market (Kyaw, 2003).

The role of FDI (i.e. the purchase of existing businesses or the development of new businesses in an economy by foreign investors) in the development of low-income countries is controversial. On one hand, FDI is viewed as a major stimulus to economic growth (Chowdhury and Islam, 1993; Rodan, 1997; Borensztein et al., 1998; Gries, 2002). These authors argue that foreign investors can provide the capital, technical and marketing know-how needed for growth. On the other hand, however, FDI is seen not to aid but to undermine the very process of development (Razin et al., 1999). They argue that FDI can have adverse effects on employment, income distribution, and national sovereignty and autonomy.

The result of this study showed that if a particular motive for FDI is being pursued in the African continent, it will lead to more growth and development in the African continent.

1.6 RESEARCH METHODOLOGY

The research methodology employed in this study includes a review of the literature on the motives for FDI, the business environmental factors and the FDI flows in Africa. This was so in order to provide a theoretical foundation for the research followed by an empirical study.

1.6.1 Literature Study

The aim of this study was to investigate the motives of Chinese SMEs' foreign direct investment in the FSP and their perception about the external environment. The current literature available

on these subjects was examined by means of a literature review. The literature review was then divided into 3 parts or chapters. The first part elaborated on the importance of FDI, motives for FDI and analysed the arguments of the advantages and disadvantages of FDI. The second part focused on the external environmental variables that can impact FDI and also a thorough analysis of the South African investment climate was examined. The last part of this literature review focused on the trends of FDI in Africa and China's outward FDI.

Most of the sources used were obtained from scientific journals and research documents which are scientifically verifiable.

The following sources and database were used:

- Local and international peer-reviewed journals such as Small Business Economics, International Small Business Journal, Management International review, International Entrepreneurship and Management Journal, Journal of World Business and South African Journal of Management Research.
- Internet sources through the websites of Statistics South Africa, Global Entrepreneurship Monitor, United Nations Conference on Trade and Development, World Investment Report and the New Partnership for Africa's Development.
- NEXUS: Current and completed South-African research.
- Sacat: Catalogue of books available in South-Africa.
- SA e-publications: South African magazines.
- International magazines, Academic Search Premier, Business Source Premier, Ebscohost and Emerald.

1.6.2 Empirical study

This study was a cross-sectional study, using a pilot study and the survey method to collect data on what motivated Chinese SMEs investors to investment in the FSP and their perception of the external business environment. The empirical study was approached from the perspective of a valid research design through definition of the study population, the incorporation of suitable measuring instrument and reliable techniques for data analysis as stipulated in Cooper and Schindler (2003:64). The measuring instrument was designed to measure the external environmental variables (the business environment) that can impact on foreign SMEs investing

in the FSP. For this reason, a standard questionnaire was designed after a thorough literature review of the business environment and foreign SMEs investments. The researcher then selected a sample of respondents from the Chinese business population using a simple random sampling method and a non-probability snowball sampling method (Cooper and Schindler, 2006:718). The Chinese business population was used in this survey because most of the foreign SMEs in the Free State province are owned by the Chinese.

- Research type

This study used the quantitative research design. Brynard and Hanekom (2006:37) describe this type of research as associated with analytical research, and its purpose is to arrive at a universal statement. The main feature of quantitative research is the heavy reliance of the researcher on data analysis to arrive at findings or conclusions.

- Data collection method

Data was gathered through self-administered questionnaires. The questionnaires were designed and distributed to Chinese SMEs owners operating in the Free State province. The Likert scales were used to measure the responses and respondent attitude towards the attributes. Likert scales are friendly and minimise confusion and misunderstanding. The questionnaires consisted of five parts: the first part consisted of questions about how the Chinese SMEs owners perceive the business environment of RSA; the second is about xenophobia; the third is networking; the forth is about ethical attitude and the last part of the questionnaire is aimed at identifying the demographic characteristics of the Chinese SME owners.

These questionnaires were distributed to Chinese SMEs owners across the Free State Province. The preferred sample frame is a mixture of Chinese SMEs from different industries and from different towns in the FSP such as Bloemfontein, Botshabelo, Thaba-Nchu, Welkom, Ladybrand, QwaQwa and Sasolburg. The essence of this mixture is to have results which are representative.

- Statistical analysis

When the data was collected, the Statistical Package of Social Sciences (SPSS) version 18.0 for windows was used to analyse the collected data. Exploratory factor analysis was used to refine the research problem and enhance the validity of the research. In addition, the statistical analyses

include descriptive statistics, cross-tabulations, frequency tables and T-test. Reliability was tested using the Cronbach's Alpha. Pre-testing the research instrument in a pilot study was used to determine the validity of the research.

When the data was analysed, the researcher was able to determine the business environmental factors that hindered foreign SMEs from investing in RSA. Also from the data collected, the researcher was able to determine the motives of the various Chinese SMEs operating in the FSP. This was done by using theoretical and empirical literature together with the obtained data to differentiate the Chinese SMEs into the two motives for FDI; supply based or market driven motives. Furthermore, the impact each of these motives have on the RSA economy and development was determined.

- Referencing style

The referencing style use for this study was the Harvard method.

1.7 PRELIMINARY CHAPTER OUTLAY

Chapter One: Introduction, problem statement, research objectives and scope of the study.

The general background of the study was introduced in this chapter likewise the problem statement. In addition, this chapter discussed the research objectives, the significance of the study, the research methodology and the limitations of the study.

Chapter Two: Importance of FDI

This chapter elaborated on the importance of FDI, motives for FDI and analysed the arguments for the advantages and disadvantages of FDI. An overview of the link between FDI and SMEs from an international and local perspective was mentioned. A review of the different forms of FDI and SMEs foreign mode of entry was discussed.

Chapter Three: External Environment for FDI

This Chapter examined the external environmental factors such as political, legal, economic and socio-cultural factors that can impact foreign SMEs' investments. Other external environmental variables like xenophobia, ethics, crime and corruption was discussed. A thorough analysis of the South African investment climate was examined too.

Chapter Four: FDI in Africa and China Outward FDI

The theoretical aspects of FDI were discussed in this chapter. These include the trends and growth of FDI in Africa, the relationship between FDI and economic growth, and China's outward FDI in Africa and South Africa. Also, China's motives to invest in Africa and their trade relation with South Africa were looked at.

Chapter Five: Research Methodology

This chapter concentrated on the methodology used in conducting the empirical research. The chapter examined the research design, the type of research used, the population, the sample design as well as the data collection and analysis methods.

Chapter Six: Research Results

This chapter focused on the analysis and interpretation of research results. The chapter tabulated the results from the analysis and exploration of the data, and discussed the findings.

Chapter Seven: Conclusion, Recommendation and Limitations

This chapter revisited the research problems and the objectives of the research. This chapter presentedsummary and conclusions on "Foreign direct investment of Chinese SMEs in the Free State Province" based on the prior chapters discussed. In addition, the limitations of the research were highlighted and the areas for further research were suggested.

References

A complete list of references used for this study was presented in this section.

Appendices

This section includes copies of the research instruments used to gather the information.

1.8 SUMMARY

This chapter provided a brief background to the study of foreign direct investments and gave an insight into the state of the art on research. This chapter further presented the research problem as being the lack of a favourable external environment in South Africa to attract the right type of

FDI that will bring economic growth and development. It was realized that over the past years South Africa has attracted a good number of FDI, mostly MNEs and yet, the country had been unable to achieve economic growth like other emerging-economies (BRIC). Therefore it was important to look at the motives of the FDIs attracted and then to encourage the attraction of FDI by SMEs. This is so because foreign SMEs are more capable of yielding more positive spillovers than large MNEs. Furthermore, this chapter examined both the primary and secondary objectives that guided the study. Finally, the chapter presented the significant of the study, the research methodology and the preliminary chapter layout.

The next chapter will be a literature study of the argument for and against FDI, the reasons for FDI and the different motives for FDI.

CHAPTER TWO

FOREIGN DIRECT INVESTMENT AND SMALL AND MEDIUM SIZED ENTERPRISES

2.1 INTRODUCTION

This chapter provides an overview of the importance of FDI and SMEs from an international and local perspective. Many African countries have been compelled to turn to foreign direct investment (FDI) as a means to avoid development financing constraints as there is a growing investment gap and decline in foreign aid in recent years (Musila and Sigue, 2006:577). Musila and Sigue (2006:577) pointed out that one of the goals of the new partnership for Africa's development (NEPAD) is to achieve and sustain an average gross domestic product (GDP) growth rate of at least 7 per cent per annum (p.a.) in order to reduce the share of Africans living in poverty by half and, as well, attain other goals by the year 2015. To reach this goal, however, it would need huge investment injections in various sectors of Africa's economies such as agriculture, industry, education, and health. For instance, it would require incremental investment rates of 29 per cent and 25 per cent to be added to the current levels of investment in agriculture and industry, respectively, for sub-Saharan African economies to catch up with Malaysia, Indonesia, and Thailand (Economic Commission for Africa, 2001).

However, the needed investment rates to attain the target economic growth rate (of at least 7 per cent p.a.) will initially require measures to either attract foreign savings – both public and private – or reduce the ''unnecessary expenditures'' that drain away the national income. Musila and Sigue (2006:578) are of the view that accessing foreign capital at this point is the way forward since national incomes, domestic savings, and domestic investment in most African countries are very low. This therefore leads this chapter to review the empirical literature about the importance of FDI, the motives for FDI, the mode of entry and the advantages and disadvantages of FDI.

This chapter begins by defining FDI and then giving a comprehensive argument for and against FDI with respect to its contributions to economic growth, income equality, employment, poverty reduction and development. The chapter will also examine the different motives for FDI, reasons FDI and the forms of FDI. It will further present the advantages and disadvantages of FDI to the

host country. Moreover, the chapter will highlight the opportunities and barriers of SMEs to carryout FDI and the mode of entry of foreign SMEs.

2.2 DEFINITION OF FOREIGN DIRECT INVESTMENT (FDI)

According to the OECD (1999:7) definitions, FDI involves a long-term business relationship and reflecting a lasting interest and control of an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)". This means the investor exercises a considerable degree of authority on the management of the business operating in the other economy. The foreign direct investment usually involves both the initial transaction between the investor and the enterprise, and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. A direct investment enterprise is also defined as an incorporated enterprise (a subsidiary or associate company) operating in a country other than their country of origin (OECD, 1999:9).

Goldin and Reinert (2006:11) also defined FDI as the acquisition of part of a foreign-based enterprise that exceeds a threshold of 10 percent, implying managerial participation in the foreign enterprise. Rama (2005:156) further defines foreign direct investment as the cross-border capital flow in which a firm creates or acquires control of a subsidiary in another country. For the purpose of this study, relocating or starting a business in another country can be regarded as FDI from the host country's perspective.

There are two types of FDI that are often mentioned: outward and inward FDI. Outward FDI refers to investment by home-based multinational firms in production and marketing facilities in foreign countries while inward FDI is investment by foreign firms in production and marketing facilities in the domestic or host country. It is often noticed that most of the world's FDI is funded through multinational corporations (MNCs) or transnational corporations (TNCs) who provide the necessary financing to control operation of subsidiaries (Rama, 2005:156).

2.3 ARGUMENT FOR AND AGAINST FDI

By the end of the twentieth century, foreign direct investment (FDI) had effectively replaced trade as a driver of economic growth in less developed and emerging economies. In 2002, there were an estimated 65,000 multinational corporations (MNCs) with about 850,000 worldwide affiliates employing about 54 million employees, a rise of 141 percent over the 1990

employment figure for MNCs (UNCTAD 2002). Over the same period, the stock of outward FDI increased from US$1 trillion to US$6.6 trillion, and MNCs accounted for about 10 percent of the world's GDP and about 33 percent of the world's exports (Bhaumik and Gelb, 2005:6). This therefore shows how vital FDI is to the growth of the host economy as it can contribute to increased productivity of host country resources, skills and knowledge accumulation by domestic firms as well as production, exporting and technological capability (Scott-Kennel, 2007:52).

Foreign direct investment (FDI) is currently considered as one of the major sources of external capital, new technology, and advanced managerial skills for the developing countries. It is also believed that it creates new employment opportunities, reduces the flight of domestic capital abroad, opens overseas market opportunities for both the source and the recipient countries, and has a positive impact on productivity and economic development of the recipient countries (Guasch, 2002; Harris, 2003). This is evident as from the early 1980s; most of the developing countries seem to have realized the importance of FDI as a source of foreign capital as they shifted their policy from restricting FDI to promoting and providing incentives for FDI inflows (UNCTAD, 2004).

Also, FDI acting as a source of foreign capital helps to convey advanced technologies to the host country. This therefore increases domestic firms' access to advanced technologies. Thus, foreign capital is important for technology transfer as domestic firms would have found it difficult to access the advanced technologies. This is so because domestic firms do not have the required capital that comes along with the advanced technologies and also, it will be difficult and risky for domestic firms with no experience to bring advanced technologies. Furthermore, long-term FDI are capable of creating many externalities in the form of benefits available to the host economy. These include transfers of technological and managerial skills in both production and distribution, industrial improvement, work experience to employees, the establishment of operational networks, and the upgrading of telecommunications services. As the host economy's comparative advantages and its competitiveness through technology transfer improve and the effects of the numerous externalities increase, foreign as well as domestic investment can boost the host country's volume and pattern of trade in many income-enhancing directions (Lipsey and Chrystal, 2007).

Many African countries have recognized the important role played by FDI in the form of foreign capital in their economic growth and development to an extent that they have adopted new policies to try to overcome the perception of being a risky location for FDI. This have been achieve as most African countries have opened up their economies and dismantled regulatory barriers to foreign investment and adopted policies to protect against expropriation of investment. Capital controls have been relaxed to allow the repatriation of profits, retention of export proceeds, and liberalization of currency markets. Besides relaxing the regulatory constraints on foreign investors, some countries also offer various fiscal and financial incentives. One-stop investment promotion centers have also been created in several countries (Musila and Sigue, 2006:580).

In spite of the developmental contributions FDI offer to developing countries, facts remains that MNEs and TNCs may use their superiority, global networks, advertising skills and a spectrum of support services to severely damage the economies of host countries through restraining domestic entrepreneurs and local competitors. In many ways this inhibits the range of local SMEs. Also, politically, MNEs and TNCs can gain control over local assets and jobs, thereby considerably influencing the direction of political decisions on all levels within the host country. In extreme cases, the FDI companies (MNCs/TNCs) could even undermine the very political process of the host nation by directly offering kickbacks to corrupt public officials who are in positions of authority (Kamara, 2008:35).

Similarly, FDI companies are capable of corrupting the host country's business environment by making indirect generous contributions to political parties that are in control of state power, with the ultimate hope of getting lucrative concessions. According to Gichira (2003), FDI should be strategically directed to industries that will impact positively on the host country on both a short and long-term basis. Some FDI companies are conducting activities that pollute the environment in developing countries, taking advantage of the low environment policies/standards that exist in the host countries. The exploitative traits demonstrated by some MNCs and TNCs have also raised a lot of concerns about international companies devaluing the work of local labourers (Gichira, 2003).

Furthermore, MNCs and TNCs do contribute to public revenue through cooperate taxes. There is probably a possibility that such contributions are considerably less than what is expected because

of a number of factors. For instance, in liberal tax concessions, excessive investment allowances, hidden public subventions and tariff protection provided by the host government all point to justifying this claim. In the light of the foregoing argument, it would seem pertinent to delve into the reason why developing countries including African countries do not benefit much from the global trade facilitated by FDI. The answer might be related to the fact that FDI companies tend to dominate the local markets and the resultant effect is stifling the growth of local or indigenous entrepreneurship (Gichira, 2003).

Another negative issue about FDI is the issue of low wages in FDI manufacturing sectors. This subject of low wages in FDI manufacturing sectors have been mentioned prominently in most economic and sociological literature. Vijaya and Kaltani (2007:83) observed that FDI flows are associated with a negative impact on manufacturing wages for men and women. Vijaya and Kaltani (2007:86) argue that FDI stimulate a destructive focus on the global exporting industry as a close society of elite employment is manifested which simultaneously make many workers redundant by adopting and utilizing capital intensive technology. This in turn will promote inequalities. Also FDI can subject workers to unsafe working conditions, compromise the natural environment, and increase the dominance of foreign culture over host cultures (Goldin and Reinert, 2006:80).

Although FDI through MNCs do transfer technology to the host country thus improving technological skills, Goldin and Reinert (2006:94) do not agree with this. Goldin and Reinert (2006:94) argue that MNCs will employ the technology that most suits their strategic needs and not necessarily the development need of the host country. Also they emphasised that there is strong tendency for MNCs to conduct their research and development in their home bases rather than in the host country hence limiting the transfer of new technologies to the host countries.

Some empirical studies such as Haskel, Pereira and Slaughter (2002) in the United Kingdom have suggested that other avenue through which FDI can positively affect the host economies is through “spillovers” to other sectors of the economy. These positive spillovers could be in the form of MNCs providing upgrading technology to domestic firms in the host country. However, Blomstrom and Sjoholm (1999) disputed that such positive “spillover effect” by FDI are not guaranteed or automatic. This is so as other studies such as Haddad and Harrison (1993) and Kokko, Tansini and Zejan (1996) failed to find such effects for Morocco and Uruguay

respectively. Aitken and Harrison (1999) also failed to find such positive spillovers for the case of Venezuela. Indeed, their evidence suggests the presence of negative spillovers due to market-stealing effects and that positive spillover effect might not apply to developing country context (Goldin and Reinert, 2006:96).

Moreover, FDI may have adverse impacts on the indigenous development of entrepreneurial talents by preempting business opportunities and crowding out domestic entrepreneurs. FDI may have crowding out effects on domestic firms if large foreign firms borrow on domestic financial markets: domestic interest rates tend to rise, thus reducing the viability of investment projects for small and medium-sized domestic firms without access to international capital markets; and local bankers - for both risk and profitability reasons - may have a greater interest in lending to larger firms (such as TNCs) rather than to the vast majority of local firms which are small. On the other hand, FDI projects could promote domestic entrepreneurship in downstream and upstream activities. This issue is closely related to the extent to which FDI generates backward or forward linkages within a host economy. The greater the demand by a foreign affiliate for domestically produced inputs or services, the more favourable will be its impact on entrepreneurial development. Likewise, there will be similar favourable effects if a good or service produced by a foreign affiliate lowers the domestic price of an input that is used further upstream in the production process. Domestic purchases of foreign affiliates tend to increase as companies gain experience in host environments. Subcontracting relationships often become important over time, with the consequent transfer of technology and managerial skills (UNCTAD, 1999:38-39).

FDI may yield a positive effect on balance-of-payments if the foreign investment generates net exports or saves foreign exchange by substituting domestic production for imports. By contrast, investments in non-export oriented firms in general and in non-tradable products in particular (most services, construction), usually have negative direct balance-of-payments effects, since most such investment projects require imported inputs and neither generate nor save foreign exchange on the output side. Therefore, for a developing country to see a positive balance-of-payment effect from foreign investments, it has to attract FDI in export sectors (UNCTAD, 1999:26).

Dornbusch and Edwards, 1994:103 emphasis that countries with small economies, especially, should guard against too much FDI too quickly and quoted that “the rest of the world’s pockets

are very deep relative to a small economy's ... absorptive capacity". Flows of FDI that are too large for the absorptive capacity of a host economy appreciate the exchange rate and run the risk of retarding outward-oriented development. Policies to smooth out FDI stock adjustment over time can be used, especially in countries that suddenly become very attractive as sites for FDI (UNCTAD, 1999:29).

2.4 REASON FOR FDI

International investment, notably FDI, is seen as crucial for the advancement of developing countries in view of their industrial expansion. According to Wheeler and Mody (1992), FDI flows have been scrutinised by a range of analytical and empirical studies with some scholars agreeing that natural resources and market size are the critical reasons for firms to relocate. This view was reiterated by Morisset (2001), who said that African countries that succeeded in attracting more FDI have been those with substantial assets such as natural and mineral resources as well as large domestic markets. Blomstrom and Kokko (2003:4) also added to the reasoning by stating that the fundamental interest, apart from market size and natural resources, are the levels of real income and skills levels in the host economy, the availability of infrastructure and other resources that compliment efficient specialisation of production, trade policies, and political and macroeconomic stability.

Firms may decide to carry out FDI so as to reduce their trade barriers and transportation cost. Also they could pursue FDI in order to increase their efficiency and their profitability by investing in foreign subsidiaries and conducting transactions within firm rather than between firms. This is particularly evident in the case of technology transfer and vertical integration (Rama, 2005:158).

The UNCTAD (2005) brings to light the intensity of FDI in oil producing countries like Nigeria, Equatorial Guinea and Angola. According to UNIDO (2005:14), between 1996 and 2000, 54.6% of accumulated FDI into SSA flowed into the primary sector with manufacturing accounting for 20.6% while 24.8% went into the service sector. In the context of Africa in general, countries which can offer large domestic markets or natural resources turn to attract more FDI as the FDI are driven by the search for cost-saving and maintenance in order to sustain a competitive position. Most developing countries see FDI as the most direct path along which to start industrialisation and enter international markets. But, foreign investors may only come to host

countries if the minimum requisite investment drivers that will inspire the interest and confidence of business communities are provided (UNIDO, 2005:1).

Also, a firm will pursue FDI if it possesses an 'ownership advantage' over its local competitors in the host country (Dunning, 1993). The "ownership advantage" refers to expertise skills, advanced technology, established brands and easy access to final markets. With this ownership advantage, the investing firm is capable of operating and competing in a foreign market as these advantages will help the firm compensate for other greater cost incurred (due to lack of information about the legal system, bureaucracy and market) relative to local firms as a result of operating in a foreign market. Further reasons for firms to invest in developing countries is to gain access to inputs for their production (natural resources, low-cost labor) and access to the markets for their output. Nevertheless, if developing countries provide favourable investment policies, economic competitiveness, and macroeconomic and political fundamentals, foreign firms will probably relocate their production unit to these countries (Pigato, 2000: 4).

Similarly, countries that want to attract resource-based FDI tend to lower the location cost of foreign businesses by either raising the quality of inputs or offer foreign investors privileged access to local inputs. Such incentives on location cost can influence the decision of foreign firms to expand abroad. This implies that countries with exploitable natural resources and a cheap and disciplined labour force have a clear advantage to attract supply/resource-based FDI or export-oriented FDI. Cheap and disciplined labour has been the main factor for growth in oriented assembly activities in most economies. For example, cheap labour and quota availability in products such as textiles and clothing in Bangladesh has led to the attraction of export-oriented activities (Pigato, 2000: 4).

Furthermore, there has been an increase in the cross-border movement of MNEs among countries. This is because of the liberalization of the trade and investment policies as they have reduced trade policies like import protection and export performance clauses thus pulling more FDI. Also, liberalization policies such as allowing foreign participation in privatization and in new infrastructure projects under a variety of contractual and ownership arrangements, and opening domestic capital markets to mergers and acquisition have been crucial in attracting FDI to developing countries, particularly in Africa (UNCTAD, 1999).

2.5 MOTIVES FOR FDI

The motivation to internationalise is a key factor in firms' FDI internationalisation. Many issues account or motivate firms to expand internationally or carryout FDI. The primary motive could be to improve the growth of the firm, to maximise returns and minimise cost in purchase, production and sales. Another motive could be to get better strategic development of the company by gaining access to international competencies, technology, labour as well as capital (Wilson, 2006:47).

The motives for FDI vary from country to country and it is greatly determined by the investing environment of the host country likewise the characteristics of the investing company and management. The investing environment of the home country can act as a push factor for businesses to carryout outward FDI, so as to seek developed overseas markets and obtain raw materials needed for production (Wu and Chen, 2001).

Most of the FDIs attracted to Africa have been as a result of its abundant natural resources and/or the size of the domestic market. According to Dunning (1993:56) there are 4 different motives for FDI, namely: natural resources, market orientated, efficiency enhancing and strategic asset seeking FDI. These motives often determine the activities of the foreign firm and also how it will contribute to the host country's economy. The above different motives for FDI are defined as follows:

Natural-resource-seeking FDI- the aim of this motive is to seek primary resources and cheap labour and is the oldest form of TNCs/ MNEs involvement in developing countries. It is undoubtedly trade creating on the production (or output) side. This kind of motive for FDI is often a precondition for the production of primary commodities for foreign markets, especially in developing countries, and generates a stream of exports of natural resources that would not have otherwise occurred. From the side of inputs used and consumption generated, there are also positive trade effects, since natural-resource-oriented FDI is usually accompanied by a flow of imports of capital goods, specialized intermediate inputs, and consumer goods. Additional gains can be derived by host countries through the processing of natural resources (UNCTAD, 1999:19).

Market-seeking FDI- this second motive depends on the expectation of new sales opportunities or market growth in the host country. This motive became predominant for investing in the manufacturing sector of developing countries in the 1960s and 1970s during the heyday of import-substitution industrialization. This motivation also was paramount in the wave of United States investments in Europe in the early postwar period and in Japanese investment in the United States since the early 1980s. Generally, market-seeking investment in manufacturing is a gross substitute for exporting from the home country, and its existence is often due to import barriers in host countries. Market seeking investments may have a multiplier effects on domestic demand and production, which could lead to significant indirect increases in imports (UNCTAD, 1999:19).

Efficiency-seeking FDI- this motive tries to utilise the specific comparative advantages of an economy. For example in Africa, such motive will take place in labour and natural resource-intensive sectors. It also occurs when TNCs locate part of their value-added chain abroad in order to improve the profitability of their overall operations. The oldest of such investments have been labour-seeking investments. As wages rose in home countries, TNCs sought to obtain access to low-cost labour in developing countries by locating in them the labour-intensive segments of their production processes. This has been a characteristic of some Japanese investment in Asia; United States investment in Mexico, Central America and Asia; and European investment in Central and Eastern Europe. More recently, as real wages have risen over time in some of the Asian countries that were first to industrialize with an outward oriented strategy, labour-seeking investment has moved on to other lower-wage Asian countries (UNCTAD, 1999:21).

Strategic-asset-seeking FDI- this motives purpose is to gain an important stake in the market over the long-run i.e. it is an investment led by long-term strategic considerations. This motive usually takes place at an advanced stage of the globalization of a firm's activities when firms including a few from developing countries, invest abroad in order to acquire research-and-development capabilities (e.g. Japanese or Korean investment in microelectronics in the United States). Integrated international production involves the location of any component in the value-added chain where it contributes most to a TNC's profitability. Thus it may be efficient for a firm to relocate design, research and development (or other high value-added activities) from its

home base to a foreign affiliate. Some developing countries are, or can make themselves, able to attract this kind of FDI through investment in human resources and infrastructure. For example, the availability of skilled personnel and the requisite telecommunications infrastructure have contributed to the location of research-and-development centers and headquarters' services by TNCs in Singapore, software development in India, and service centers for airline reservations in the Caribbean. These investments are trade-creating in production and consumption. For the developing countries involved, this kind of FDI is tantamount to exporting high-skill labour services or could give rise to exports of services and equipment from home countries (UNCTAD, 1999:25).

From the definitions above, it is often difficult to separate efficient enhancing and strategic motives from the other two motives for investment. As such, most empirical research often distinguish two motives for FDI; supply based or export-oriented motives and market-driven or market-oriented motives (Kurtz and Wittke, 1997).

On the contrary, Agarwal (1996) distinguishes three different motives: natural resource seeking, market seeking and efficiency seeking. Agarwal (1996) dismisses the strategic motive and splits supply-based motives into natural resource seeking and efficiency seeking. The purpose of the latter one is to utilise relatively low costs of labour. Hence this motive is mainly observed in labour intensive industries and processes. Moreover, Agarwal provides an explanation of what impacts these different motives of investment have on trade. For that purpose he distinguishes three different impacts; the substitution of former exports through FDI, growing re-imports of goods and services produced abroad by foreign affiliates of domestic firms and FDI associated exports of goods and services. The last kind of exports can be explained by FDI which stimulates – in particular at an initial stage - exports of capital goods, spare parts and raw materials to the related affiliates.

In addition, FDI may stimulate exports of other product lines neither produced by the foreign affiliate nor exported earlier by the parent firm. This is because the new unit is usually able to offer a closer market relationship to foreign customers. The overall impact of FDI on trade (and therefore on domestic employment) is the sum of negative (export substitution, re-imports) and positive effects (associated exports). Although Agarwal's study does not provide quantitative results, his conclusion is rather simple: FDI in natural resources, market oriented manufacturing

industries as well as services are likely to have a positive impact on the domestic economy. Only efficiency oriented FDI of industries and services may have negative impacts on the home economy. Because the latter generally accounts for a minor portion of total FDI, the net impact on the domestic economy is likely to be positive (Altzinger, 1998:3)

Vincentz, (1995:107) pointed out that low labour-cost motives are of increasing importance in most recent investments and in particular in prospective investments. One of the main presumptions is that the share of cost-motivated, export-oriented investments into the transition countries will increase over time, while market-oriented and natural resource investment will recede. This argument is that for market-oriented investment the first mover advantage (FMA) was important and for natural resource investment it was in particular the opportunity to acquire strategic assets at a low cost. Hence both kinds of investment have been realised even if the country risk perceptions among investors have been high (Altzinger: 1998:5).

FDI in less developed countries and developed countries are typically motivated differently. Newly industrialising economy firms tend to invest in less developed countries (LDC) when they have efficiency-seeking or resource seeking motivations while in developed countries they invest as a result of having strategic asset seeking and market seeking motivations (Makino et al, 2002). Sethi et al. (2003) argued that USA MNEs are making increasing FDI in developing countries in order to benefit from increased efficiency, achieved through decreased production costs and economies of scale (Chen, Chen and KU, 2004). It is therefore expected that firms with emphasis on technology and market capabilities development are more attracted to locations with advanced technology and market access while firms with an emphasis on manufacturing capabilities development are more attracted to locations where a higher efficiency of operation can be achieved (Chen and Hsu, 2009:590).

Also it is important to note that different investors from different countries or regions exhibit different motives for FDI. Some overseas Chinese and Japanese investors look for immediate profits through low-cost unskilled labour and land that have become a scare resource in their own country (Child and Faulkner, 1998).

Altzinger (1998:2) acknowledged that countries attracting more supply-based FDI would have a larger export share than countries with more market driven FDI. Besides this, market driven

affiliates (in the host country) stimulate exports from the home country from the parent company while imports from these affiliates (if they do take place) are of minor importance to the home economy. This implies that intra-firm trade shows a surplus to the parent company's economy when carrying out market driven FDI while there is a surplus in intra-firm trade in the host economy when attracting supply-based FDI, as it is mostly export orientated (Altzinger, 1998:2). Thus, it is vital for South Africa to go after efficient supply-based FDI as it will help improve the balance of trade and impact the economic development positively.

On the other hand, Wint and Williams (2002) suggested that market-seeking FDI can lead to conflict between private benefits and social benefits, especially if such FDI is protected from competition. Extractive-seeking FDI is also likely to be accompanied by high social costs in the form of exploitation of economic rent, negative externalities in the form of pollution, and the exacerbation of inequality through dualistic economic structures. Accordingly, most governments in developing countries and Africa in particular, have nowadays been more enthusiastic about attracting export-oriented FDI. It is believed that export-oriented FDIs are unlikely to cause conflict between the private benefits to the investor and the social benefits to the country. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI (Wint and Williams, 2002).

In fact, low-income countries are particularly keen to attract export-oriented FDI since small domestic markets preclude the possibility of attracting market-seeking FDI. Nevertheless, despite the enthusiasm for export-oriented FDI, low-income developing countries are not attracting significant volumes of FDI. Moreover, the flows of FDI to developing countries are concentrated in a small group of countries with large markets, high-income levels, and rapid economic growth (UNCTAD, 2002). The problem of faltering FDI inflows is especially acute in Africa, in contrast to other regions that have witnessed increase in inflows of FDI. The consequences of this have been catastrophic on social progress of the African region (Musila and Sigue, 2006:579).

2.5.1 Supply-based or Export-orientated Motive versus Market-driven Motive

Supply based motive for FDI involve FDI which are targeting relatively low cost of labour and is mainly observed in labour intensive industries and processes (primary sectors). This kind of motive is very common in developing countries where cost of labour is cheap and is more

profitable to produce in these countries and export abroad (Agarwal, 1996). This can be noticed as between 1996 and 2000, 55% of FDI inflow in Africa was in the primary sector with most of the inflows going to Angola, Sudan, Nigeria and Gabon, to their oil and gas projects. Similarly, over 50% of flows to South Africa and Tanzania were in gold mining (Anyanwa, 2006).

Export-orientated FDI also involves dispersing the different stages of the production process geographically, based on labour intensities whereas market-oriented FDI means building plants in several countries to serve local markets or export to the host country to serve the local market (Zhang, 2000b). There are various factors dictating and influencing export-orientated and market-orientated FDI strategies. Export-orientated FDI is largely influenced by cost-related location factors like production cost (e.g. labour and transport cost), conditions of infrastructure, import duties and fiscal policies (e.g. preferential tax treatment) (Cheng and Kwan, 2000). The market-orientated FDI often responds to market openness (e.g. tariff and quota protection) and domestic demand.

The local market size is a critical determinant for market-orientated FDI because a large market size offers greater opportunities to realise economies of scale (Zhang, 2000b). Attracting good market-orientated FDI with advanced technology will require a good stock of human capital or skilled labour and good infrastructure in the host country. The same applies for good export-orientated FDI especially those in the manufacturing sectors. A reliable foreign exchange rates will be necessary too for a good export-orientated FDI.

For Africa to achieve fast economic growth through FDI, like the one experienced by China, they will have to welcome more export-oriented FDI in the manufacturing sector and not only in the natural resource sector. The fast economic growth in China has been as a result of the government focusing more on export-oriented FDI. This is to say, foreign firms investing in China that are export-orientated, investing in high export ratio sectors and using new technologies are given preferential treatments by the Chinese government, thus, encouraging foreign firms to purse this type of FDI in China. These preferential treatments include; reduction in corporate income tax, reduction in land use fees, exemption from the profit remittance tax and receipt of priority in obtaining water, electricity, transportation and communication services (Buckley and Meng, 2005:114). Therefore, if Africa, most especially South Africa applies the

above strategies used by China to attract good export-orientated FDI, then it will be able to attract the right type of FDI that will bring development and high economic growth.

The most popular type of investment China carry out in Africa is in the form of supply based motives as they concentrate more on extracting natural resources. These Chinese investors are mostly stated owned enterprises (SOE) which enjoy strong support from the Chinese government in the form of direct financial assistance; negotiation of bilateral investment treaties and trade agreements with the host countries; close inter-governmental relationships that China is now reviving across certain parts of the developing world (Buckley et al., 2008:736). Exemplar companies include China National Petroleum Corporation (CNPC) - the joint owner of a Sudanese oil production plant (together with Canadian, Malaysian and local interests), Sinopec, Shanghai Baosteel (the owner of six joint ventures in Australia, Brazil and South Africa in iron-ore mining and steel trading), Sinochem and China National Offshore Oil Corporation (CNOOC).

Furthermore, firms will like to carryout market-oriented FDI once they realise that there is a potential market sales size and growth potential. In such situation, they will like to move to the host country and invest their resources and know-how so as to acquire a greater share of the potential rewards, particularly in small niche markets, instead of exporting their products to the foreign markets on an intermittent basis (Pinho, 2007:728).

Te Velde (2001:9) suggested that efficiency-seeking FDI in the manufacturing sector has a more advantageous impact on the economic development than FDI in natural-resources. The direct employment effects of FDI are often used as indicators to determine how successful an FDI is to economic development. However, having a cross-country data basis on employment generation by an FDI will not take into consideration indirect effects on employment or on technical efficiency. Therefore, it becomes difficult to measure the impact of FDI performances on economic development as no simple indicators are available to measure the direct and indirect impact FDI have on the economy.

2.6 FORMS OF FDI

As a result of the world being a global village, internationalisation is increasingly becoming an important issue to the competitiveness of enterprises of all size, whether big or small. In the

present world environment, SMEs that start with a global strategy can move quickly to take advantage of cross-border activities, which provide opportunities not only for revenue growth but also for the exchange of knowledge and the enhancement of capabilities, thereby strengthening the long-term competitiveness of the firm (Wilson, 2006:43). Firms take various forms to carryout FDI, namely: Joint Venture (JV), Merger and Acquisition (M&A) and Greenfield investments.

Some extensive literature identifies that the key determinant of the nature and form of FDI by a firm is strongly related to the international orientation of the owner-manager or any key decision maker in the business. The willingness and ability of the CEO, owner, manager or strategic leader to take the firm internationally is solely dependent on his/her exposure to a range of factors, including existing formal and informal international contacts, knowledge of foreign competitors, experience of foreign cultures, language skills and educational background (Lloyd-Reason et al, 2004). Without a strong leadership committed to internationalisation, firms are less likely to pursue cross-border activities. Conversely, some recent researchers have proof that firms do not necessarily need to follow any consistent pattern in their internationalisation, although the driving forces behind the process remain the same. The "New Venture Internationalisation Theory" emphasises the important of resource endowment of the firm in facilitating early internationalisation decisions (Autio and Sapienza, 2000). This is especially important in knowledge-intensive industries (McDougall and Oviatt, 1996).

2.6.1 Joint Venture

With SMEs finding it difficult to perform FDI because they traditionally have a small financial base, limited international knowledge and a limited geographic scope (Lu and Beamish, 2002), joint ventures provide them with an option of entering foreign markets or countries easily. Joint ventures enable firms with limited productive resources and/or market knowledge to enter international markets. For firms to use the joint venture method to enter foreign countries, they need to find appropriate partners which often are a huge challenge. With these partners, they can form great alliances and networks in various business activities such as joint research and development, manufacturing, marketing, sourcing of inputs or cooperating in distribution (Kirby and Kaiser, 2003). Such partnerships will help improve the foreign firm's market knowledge and its knowledge of the external environment of the host country.

2.6.2 Merger and Acquisition (M&A)

According to Rama (2005:150), the majority of FDI flows consist of mergers or acquisitions of existing foreign assets. Merger or Acquisition is an option for FDI whereby firms can get into a foreign market by merging with or purchasing an existing firm in that market. Such form of FDI gives the firm an immediate access to foreign markets, along with an established market presence and an experienced management team (Wilson, 2006:52). Cross-border M&A also involves the taking over or merging of capital, assets and liabilities of existing businesses. Similarly, when firms from different countries combine their assets and operations to form a legal entity, they are known as M&A. Furthermore, M&A takes place when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Mergers and acquisitions are an important form of FDI and firms often use it to carryout FDI (UNCTAD, 1999).

2.6.3 Greenfield Investment

Greenfield FDI is a form of FDI that involves the direct investment in new businesses, facilities, and factories or the expansion of existing businesses. Most FDI that take the Greenfield form of investment usually do so in highly protected, high cost and low productivity activities, as they have just the local firms with less standards of efficiency to compete with. The form of FDI that most host countries target are Greenfield investments because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. The Organization for International Investment stated that Greenfield investment provide benefits such as increased employment (often at higher wages than local firms), additional capital investments and investments in research and development to regional and national economies. On the other hand, Greenfield FDI is seen by the host country as a negative form of FDI as it could account for the loss of market share for competing domestic firms. It could also be criticised as their profits usually bypass the local economies, and instead flow back entirely to the firm's home economy, thus causing the host country to benefit less (Pigato, 2000:5).

However, there is the argument that FDI is likely to have more favourable effects on capital formation when it takes the form of Greenfield investments rather than that of mergers and acquisitions, which play an important role in world FDI flows (UNCTAD, 1998a). Greenfield

FDI, or FDI in new projects, add directly to the stock of productive capital (and to employment) in the host country, while a merger or acquisition represents a change in ownership that does not necessarily involve any immediate additions to investment or employment in the host country. Over time, however, the impact of FDI through the two modes is likely to be similar in these and other respects, while differing in some others, particularly in the competition area by eliminating acquired companies or crowding out domestic companies (WIR, 2006:17).

2.7 ADVANTAGES AND DISADVANTAGES OF FDI

Many studies have identified the advantages and disadvantages of FDI but no agreement has emerged as to which set of FDI flows are good or bad FDI. The results from studies of FDI are sometimes sensitive to these factors, indicating a lack of robustness. Some studies have identified the following factors to determine if a FDI flow is good or bad. These factors include employment, technology transfer, development, economic growth, trade balance, exchange rate, R&D and tax (Kok and Ersoy, 2009: 105). However, Chakrabarti (2001) found that the relation between FDI and many of these factors are highly sensitive to small variations in the external environment.

Some economists have suggested that direct investment benefits both the home and the host country and that the benefits of such investment outweigh the costs. Some African leaders and governments are concerned about the potential negative effects of inward and outward direct investment. Most economists argue that free and unimpeded international flows of capital, such as direct investment, positively affect both the domestic (home) and foreign (host) economies. For the home country, direct investment abroad benefits individual firms, because firms that invest abroad are better able to exploit their existing competitive advantages and are able to acquire additional skills and advantages. This tends to further enhance the competitive position of these firms both at home and abroad and shifts the composition and distribution of employment within the economy toward the most productive and efficient firms and away from the less productive firms (Jackson, 2007).

Attracting FDI does not necessarily mean a country will benefit from FDI. The operating business and the host government usually have different objectives. The operating business may aim to increase their profitability in an international context while the host government may want to foster the development of their country. Therefore it is relevant for the host government to

design policies which are friendly to investors and help them achieve their goal, likewise ensuring that the investments bring development to the country. Thus, it is necessary for the government to monitor the investors operations as it is common for MNEs to come and exit the host country with relative ease after maximising their profit without contributing anything positive to host economy development (Moran, 1999).

The question of whether FDI is good or bad is a very subjective one. It will depend on the country that is being invested in, the industry where the investment is being made, the firm that is making the investment and amount of investment that is being made. Similarly, the net outcome of the FDI will also depend on various factors such as the level of development of the country, its economic structure and its policies, on the one hand, and the motivations of the TNCs/ MNEs, the industry of the investment and the mode of entry, on the other. The private gains of TNCs and the benefits to home and host countries may converge or diverge, depending on the precise context and on how effectively home- and host-country policy interventions are designed and implemented. Foreign direct investment is known to be both expensive and risky compared with either exporting or licensing. It is expensive because the firm is literally starting from scratch to build a new enterprise in a foreign country, unless it undergoes a merger and acquisition mode of entry (World Investment Report, 2006:169).

2.7.1 Advantages of FDI

The economic advantages of FDI are difficult to measure with precision. The FDI package varies from one host country to another, and is difficult to separate and quantify. Where FDI entry has large (non-marginal) effects, measurement is even more difficult: there is no precise method of specifying a counterfactual i.e. what would have happened if a TNC or TNCs had not made a particular investment or investments (World Investment Report, 2006:184).

Job creation is possibly one of the main challenges for developing countries. With FDI flows through MNEs and SMEs, it can increase employment as it could play an important role in industrial change with their knowledge of markets, technologies and distribution channels (UNCTAD, 2007). This will therefore promote diversification of production activities into new areas, facilitate restructuring of existing activities, and foster coordination between public and private entities to improve job creation (Felipe and Hasan, 2006:7). Having FDI will improve the host country's competitiveness by combining firm-specific assets and country-specific assets.

This typically entails combining access to foreign markets and modern technology with a large supply of cheap labour. Such a combination of firm-specific assets and country-specific assets has often improved and expanded existing host-country industries, introduced production in new industries, and changed the comparative advantage of the host country (Lipsey, 2006).

Having FDI flows such as the introduction of new foreign industries and new foreign firms in the host country, can lead to increase employment via establishing linkages with domestic firms through purchases of locally produced goods and services. Moreover, firm-specific knowledge might diffuse from foreign to local firms through so-called spillovers. One channel of such spillovers is through turnover of employees (Görg and Strobl, 2005) and managers (Pack, 2001). This channel might be particularly important also because foreign firms tend to provide more training than domestic firms (Djankov and Hoekman, 1999). It is further possible for FDI to provide new and better quality inputs used in the production of upstream domestic firms, thus making them more competitive and facilitating them to expand production and employment.

An integral part of an open, international economic system and a major potential medium for development is foreign direct investment. This has been recognised by OECD in a report, which focused on maximising the benefits for inward investment, while recognizing the possible costs and ways of reducing them (OECD, 2002). The potential benefits of FDI for host economies include increasing the supply of capital; technology and knowledge transfer; the generation of employment and human capital; as well as the effect on enterprise development, through linkages and spillover effects. An additional source of capital is clearly important in countries where financial constraints act as a major barrier to development (Smallbone, 2007:81).

In terms of technology and knowledge transfer, FDI in developing countries can potentially contribute to the upgrading of local suppliers through technical assistance, training and the transfer of knowledge. It may also contribute to increasing the rate of adoption of new technologies by local industries, as a result of processes of imitation and competition. In terms of employment, inward investors can generate new jobs directly, but they can also contribute to raising skill levels, because their skill requirements may be higher than those required by domestic firms. At the same time, the extent to which MNEs actually facilitate such spillovers in practice has been shown to vary between sectors and contexts (OECD, 2002).

Moreover, by receiving FDI, countries gain various benefits that would promote their economic growth. First, FDI transfers financial resources to recipients or host countries, which could be used to expand production facilities in the host countries. Second, technology and managerial know-how, which play crucial roles in promoting economic growth, may be transferred to the host countries. Third, FDI enables the host countries to participate in various networks such as sales and procurement networks of foreign investors. Using international networks, host countries could not only expand exports but also import high quality parts and materials, which in turn would improve productivity in the host countries (Urata and Kawai, 2000:79).

Attracting foreign direct investment (FDI) is important for sub-Saharan Africa as it can influence the reduction of unemployment and poverty, and ensure sufficiently high economic growth rates. It is argued that Africa's inadequate supply of human capital is one of the main reasons for the slow inflow of FDI into Africa. Physical and human capitals work in a complementary fashion and if human capital cannot (due to inappropriate human resource development) complement physical capital, investment will be reduced. Thus, human resource development, especially strategies aimed at skills development in technical, health care, and other professional occupations, is indispensable if Africa wishes to attract the levels of FDI it needs to achieve sufficient economic growth (Naudé & Krugell, 2003:1).

Also, for the African continent to boost economic growth, increase employment and reduce poverty, it has to consider domestic investment critically. Domestic investment is the engine of economic growth; it increases the productive capacity of the economy, lays the foundation for higher future income and creates jobs. For Africa, sustaining high levels of domestic investment will be of great essence to achieve the growth rates necessary for raising the incomes of poor people above the poverty line (DFID, 2001). To add, in order for the African countries to provide its growing population with productive jobs, they must raise the levels of domestic investment.

Anyanwu (2006:45) suggested that foreign investors could play a crucial role in poverty reduction; first by providing funds for investment and ensuring their efficient use and secondly, by directing investment to ensure desirable economic and social outcomes. With the experience and knowledge most of these foreign investors have, they can put forth a great influence over the rate of growth of the economy by ensuring that the capital is used more productively and the projects maximise employment and are in line with the principle of sustainable development.

In addition, FDI induces domestic firms to allocate and use resources more efficiently. This is so because FDI opens up the economy to foreign firms to increase the degree of competition in product markets thus increasing firm competitiveness and growth (Anyanwu, 2006:46). Another important aspect of FDI is that through the training of local workers, it develops the local manpower skill thus increasing the level of productivity (Dupasquier and Osakwe, 2003).

From the prospective of the home country, FDI pose a disadvantage in the sense that when outward direct investment (ODI) is carried by the home firms, it tends to lead to the loss of investment, exports and employment in the home economy, thus leading to a "hollowing out" of the domestic industry (OECD, 1998). This issue is one of the reasons for the increase in unemployment in the United State of America today as most of their manufacturing companies (textile and motor factories) have move to Asia most especially in China where there is cheap labour and production cost thus reducing employment and export in the manufacturing sector in the USA.

Conversely, some economic research suggest that ODI is beneficial to the home economy under certain conditions like enhancing multinationals and their domestic suppliers to expand into new markets and gain access to new technology. Also, "horizontal" ODI can secure well paid jobs in the home country while "vertical" ODI can facilitate a restructuring in certain industries in the home economy by moving some labour intensive production processes overseas to more competitive locations, allowing the domestic operations to concentrate on "strategic" high value-added activities that pay higher wages (Wilson, 2006:52).

Foreign businesses as compared to local businesses are often faced with more difficulties and have extra cost when operating in the host country or abroad. According to Dunning (1993), to overcome such difficulties or extra cost, the foreign business need to possess an ownership advantage in the form of tangible (technology) or intangible (brand names) assets. Apart from these difficulties and extra cost foreign businesses incur more than local businesses, they still offer a lot of benefits to the host country. These benefits are seen as foreign businesses especially those operating in developing countries, tend to be more productive, pay higher wages and are more export intensive than local businesses. They also possess assets such as long-term finance, new technology and management skills more than local businesses (UNCTAD, 1999; Lall, 2000a).

Furthermore, FDI can contribute to poverty alleviation when it supports the generation of new employment, promotes competition, improves the education and training of host-country workers, and transfers new technology. These benefits are evident in a host of developing countries. Unfortunately, FDI is highly concentrated, and many developing countries receive little or no FDI inflows. FDI that establishes backward links to local suppliers and advances best practices in terms of technology, employment, and social conditions is more beneficial that FDI that remains a low-wage enclave within the host country (Goldin and Reinert, 2006:12).

2.7.2 Disadvantages of FDI

The inflows of FDI might decrease employment or closure of domestic firms. This could happen if domestic firms downsize their workforce, displace the local producers or even close down as a result of increase in competition in the market. However, it is anticipated that the laid-off workers might eventually be absorbed in other firms and industries, but the adjustment costs can be substantial. This is particularly true if the FDI focus mainly on export markets or are more capital intensive and then neglect the domestic work force (Davidson and Matusz, 2001). Similarly, there is the perception that countries that carryout outward FDI increases the insecurity and risk of employment and reduced wage levels in the home country economy (WIR, 2006:195).

FDI by a MNE usually have some disadvantages in the host country as the MNE is perceived as a threat to national sovereignty, have unfair advantages over local competition, exploit government incentives at the expense of taxpayers, limit knowledge transfer to developing nations, exploit critical national and natural resources, and move on when their exploitation is finished.

Also from an investor perspective, FDI can be disadvantageous as it will increase cost of travel and communications abroad, cost of R&D about the local business environment and adapting to the local business tax laws and other government regulations. Language and culture differences sometimes become a huge problem for the investor.

FDI may have a positive role leading to economic diversification and higher exports, generating employment and externalities and strengthening the local system of innovation, it may also have a negative role. This is the case when FDI remains an enclave operation exploiting natural

resources with bad environmental practices, when foreign affiliates takes advantage of their proprietary assets to crowd out local competitors, or when they engage in market distorting practices (Chudnovsky and Lopez, 2007:75).

Small developing countries that attract one or two FDI (MNEs), may led this few FDIs to have a dominant monopoly in the host-country. This is especially so when the productivity of domestic firms is low and the market of the developing country is too small to entice other or more FDIs to enter the market. Therefore such situations tend to give complete monopoly to the few FDIs operating in the host economy as they have no major rivalry. This therefore, kills most domestic firms in the host country (WIR, 2006:195).

Having FDI flows do not automatically guarantee that it will contribute to economic development. FDI could lead to increase in inequality between (groups of) individuals or regions, direct or indirect crowding-out of local capabilities, or the erosion of labour and environmental standards (Oman, 2000).

2.8 DEFINITION OF SMALL AND MEDIUM SIZE ENTERPRISES (SMES)

Beck *et al.* (2005:200) point out that there is no universally agreed definition of the term small and medium enterprises (SMEs). Numerous factors related to a country's social-economic environment influence the definition of an SME. Most definitions currently follow quantitative and qualitative lines. Quantitative factors are primarily the number of employees, the annual turnover (sales) and the balance sheet total. The qualitative factors require that an SME have a relatively small share of its market, be run by its owners and not be a subsidiary of a large firm. Also, the definition of SMEs on the basis of a specific criterion is not uniform across countries. Some countries (e.g., the United States of America) define a SME as a firm with less than five hundred employees while some countries in the European Union define the cut-off for the definition of SMEs as two hundred and fifty employees.

SMEs are generally defined as non subsidiary and independent firms that employ less than a given number of employees. European statistical standards determine the following three SME categories: microenterprises (0–9 employees), small companies (10–49 employees), and medium-sized companies (50–249 employees). In addition to the above-mentioned conditions, a company's annual turnover must not exceed 40 million Euros, or its annual balance sheet must

be less than 27 million Euros, or both. Regarding non subsidiary conditions, an equity share of a large company should not exceed 25 percent (OECD, 2002:7).

According to the Government Gazette of the Republic of South Africa (2003), the National Small Business Act of South Africa of 1996, as amended in 2003, describes an SME in two categories: a small firm and a medium-sized firm. A small firm is defined as having between 1 to 49 employees or a maximum of R13million as annual turnover or a maximum of R5million assets in the annual balance sheet, while a medium-sized firm is defined as having between 50 to 200 employees or a maximum of R51million as annual turnover or a maximum of R19million assets in the annual balance sheet.

SMEs are the major driving forces behind economic growth, innovation and job creation and, similar to the USA, it is almost a worldwide phenomenon that big businesses are downsizing while SMEs are the major job creators. For example, since 1980, the USA has created 34 million new jobs, while the Fortune 500 companies lost over 5 million jobs. In addition, in 1960s one out of four persons worked for a Fortune 500 company; yet by the late 1990s, that number had decreased to only one in 14 (Timmons & Spinelli, 2007:51).

2.8.1 Internationalisation of SMEs through FDI

Small and medium-size enterprises (SMEs) give jobs to a large share of employees, add a considerable share to total business turnover, and make a country's economy more flexible. In most Organization for Economic Cooperation and Development (OECD) countries, SMEs account for 96 to 99 percent of the total number of companies. SMEs provide 60 to 70 percent of total employment in manufacturing and most of the jobs in services (OECD, 2002:7-8). Even though they contribute to about two-thirds of total output and employ around two-thirds of the active labor force, SMEs still lag behind large enterprises in internationalization through outward foreign direct investment (FDI). They generate only between one-quarter and two-fifths of the total world exports (OECD, 2002:7-8, 13).

Although SMEs stay focused on their home markets, an increasing number of them are entering global markets, which is particularly challenging for those at the doorstep of joining the African markets. International trade liberalization, progress in telecommunications and transport, and internet utilization have created completely new business possibilities for SMEs, and at the same

time, exposed them to fiercer international competition, as the information-communication revolution has diminished the significance of home-market size and geographic distances. Enhanced foreign competition and liberalized global markets are driving SMEs to internationalize because it is the only way to survive in the long term. Though many standardized products and services markets are controlled by large multinational corporations (MNCs), numerous highly specialized niche markets remain (Svetlicic, Jaklic and Burger, 2007: 37).

As SMEs realize their limited resources and capabilities in the fields of research and development (R&D), human resources, financial resources, and marketing, more of them network themselves into global linkages and alliances, engaging in MNC distribution systems as specialized suppliers. Also, more SMEs realize that without globalizing their activities, they will fall behind in the world market (Svetlicic, Jaklic and Burger, 2007:37). Networks can be especially useful for SMEs because they can help to overcome some of the SMEs' problems and speed up market entries, particularly in transition economies, in which spin-offs from previous large systems with certain levels of inherited knowledge and networks and informal business networks are common. Most SMEs are more ambitious about creating strategic alliances and cooperation agreements with other companies when expanding operations abroad and more flexible in combining resources, networks, strategy, and entrepreneurship when internationalizing (McDougal and Oviatt 2000).

Many African countries are opening up to international business on an unprecedented scale, realizing that the inward focus of the past will not necessarily lead to the creation of wealth. Regardless of its abundance of natural resources, Africa is perceived by foreign entities as a high risk relative to returns location (Luiz, 2006:3). The export performance of most countries in Africa is alarmingly low and hence there is a need for African governments to create an environment that will stimulate the competitiveness of small firms in the current globalised export markets if the millennium development goals are to be attained (Rutashobya and Jaensson, 2004:159).

Internationalisation has become increasingly important to the competitiveness of enterprises of all sizes. In today's environment, small and medium-sized enterprises (SMEs) that start with a global strategy can move quickly to take advantage of cross-border activities, which provide opportunities not only for revenue growth but also for the exchange of knowledge and the

enhancement of capabilities, which strengthen the long-term competitiveness of the firm (Wilson, 2006:44).

In general, smaller firms are important. SMEs account for over 95% of businesses, create roughly 50% of total value added worldwide and, depending on the country, generate between 60% and 90% of all new jobs (OECD, 1997). While they historically have not been associated with international business, based on an empirical study of trends in 18 industrialized countries, the Organization for Economic Cooperation and Development (OECD) notes that SMEs now account for about a quarter of exports in most industrialized nations (OECD, 1997). Internationally-active SMEs are emerging in notably large numbers throughout the world, and they tend to be more dynamic and grow faster than strictly domestic firms (Rennie, 1993). Since the 1970s, numerous key trends have made going international a more viable option for many SMEs. This has lead to the extent that they have become entrepreneurial engines for new technologies, product innovations, and the broader development of nations. The rise of the international SME is a key trend. However, smaller firms usually lack the resources, capabilities, and market power of traditional multinational enterprises (MNEs). Given their relatively low base of resources, compared to their larger rivals, the complexities of international operations tend to be considerably more challenging for the SME (Knight, 2001:1).

Evidence from Asia, Europe, and North America indicates that increasing numbers of SMEs are involved in international trade (Rennie, 1993). Pioneering global start-ups now account for a substantial portion of growth in national merchandise exports in many countries (Verity, 1994). In recent years, numerous trends have emerged that make exporting and other international involvement a strongly viable alternative for the SME.

Smaller firms are also affected by the forces of globalization, including falling trade and investment barriers, and the far-reaching activities of large multinational enterprises (MNEs). Increasing cross-national competition is pressuring SMEs to internationalize. This, combined with increasing opportunities to pursue foreign markets and the ability to profit from expanded scale and scope in their operations, has created many incentives for smaller companies to carry out FDI (Oviatt and McDougall, 1995).

Compared to MNEs, smaller companies are unfettered by bureaucracy and expensive existing information systems (Pelham and Wilson, 1995.) They are often more innovative, more adaptable, and have quicker response times when it comes to implementing new technologies and meeting specific buyer needs (Verity, 1994). With the growing role of direct marketing, globe-spanning transportation specialists such as Federal Express, and buyers with specialized needs, SMEs can increasingly serve niche market segments that span the world (Oviatt and McDougall, 1995).

2.8.2 Opportunities for SMEs to carry out FDI

Various opportunities have presented themselves for SMEs to carryout FDI. With the improved technology and communications across the globe, it is easier for firms of all sizes and in various locations to do business with each other. The globalisation of large firms and service providers has improved opportunities for SMEs to participate in different parts of the value chain of those companies (OECD, 2004). Network-orientated operating models and innovative corporate approaches have provided more opportunities for SMEs to conduct business with larger firms. Business tools and better dissemination of management education has enhanced the competitiveness and quality of businesses across the spectrum. This implies that foreign SMEs nowadays should find it easier to do business in Africa as there are many large businesses operating in Africa, in which the foreign SMEs can incorporate easily in their value chain. They can also form a good business network with these large firms as they could have the same cultural background or come from the same country of origin or speak the same language, thus easing their business networking. This could be spotted on as an increasing number of Chinese SMEs are coming to Africa as a consequence of already having well established large Asian businesses in Africa (Wilson, 2006:45).

One of the most important drivers of local economic development is the acceptance of foreign entrepreneurship. New foreign firm formation and activities of foreign SMEs help drive job creation and economic growth through accelerating innovation and promoting the full use of human, financial and other resources. The strength of the new and small firm sector is therefore a major determinant of local competitiveness, which in turn influences national performance (OECD, 2005).

Furthermore, SMEs engaging in FDI and which is growth orientated can benefit tremendously from pursuing larger and new niche markets, exploiting scale and technical advantages, upgrading of technologies or lowing and shading costs, including R&D costs. They can also gain substantial knowledge and capabilities, improve access to finance, spread risk, greater flexibility and better ways to internalise market information when they investment internationally (Liesch and Knight, 1999).

2.8.3 Barriers hindering SMEs to carry out FDI

Despite the trends facilitating internationalisation, many barriers still exist both internal and external to firm considering going international. The external factors impeding SMEs to carryout FDI include national and international administrative rules and regulations as well as formal and informal trade barriers. Cultural differences, lack of information or skills, insufficient networks, language barriers and lack of access to necessary finance are some of the internal barriers for SMEs trying to carryout FDI (Wilson, 2006:46).

Firm size and cost of the internationalisation process poses some barriers for FDI by SMEs. Such cost include those associated with doing market analysis abroad, purchasing legal consulting services, translation of documents, adaptation of products to the foreign market standards, travel expenses and greater business and financial risk incurred in operating in a foreign country (European Commission, 2004).

Most SME owners face many barriers when investing abroad because they are newcomers to this type of international cooperation. Considering internationalization as a knowledge-accumulation process suggests that it is riskier for a firm to expand by outward FDI, as it involves more funds and demands specific management and organizational skills compared to exporting. In short, investing abroad asks for experiences that, to a large extent, can only be learned by doing. Conceptually, there are two types of barriers when investing abroad; internal barriers within investing firms and those external to them, which can be further divided into home and host market-specific barriers (Jaklic and Svetlicic, 2003). Size-specific internal barriers to outward investment, such as financial sources, experiences, knowledge, skilled labor, and access to vital business information, are also likely to be a greater challenge for smaller firms than to large firms.

Barriers differ by country, sector or activity, previous experience, size of company, and regional direction of investment. In general, host country-related barriers, such as risk and investment climate are most important barriers to outward FDI, regardless of country of origin. Frequent changes and problems with the practical implementation of legislation, a characteristic of transition, make operating in such an environment much more costly. Home-country barriers are the least important. Comparing barriers to the FDI of SMEs and large enterprises, the SMEs are more vulnerable to the barriers. This particularly applies to the lack of financial resources and lack of knowledge, which can be summarized as lack of personnel, information, and adequate management. This is certainly more pronounced in FDI by SMEs (Urata and Kawai, 2000:90).

2.8.4 FDI by SMEs versus FDI by Big Businesses (MNEs)

The major determinants for FDI activity are motivation, barriers, and the competitive advantages of investing firms. The size of the firm will greatly determine which of the above factors will be more important in persuading FDI activity. Apart from competitive advantages, there are no differences found in the ranking of particular motives and barriers as determinants of FDI behavior between SMEs and large enterprises. The similarities and differences in the effect of FDI between SMEs and large enterprises are discussed as follows.

Large companies are more cost-sensitive when deciding where to invest and try to acquire strategic assets more often than SMEs. The investment motives of large enterprises are more diversified than those of SMEs. Due to larger capacities, large enterprises are more able to combine resources outside their national markets and could therefore pursue more motives at the same time i.e. market seeking and supply based or resource seeking motives (Dunning, 1998).

There are no differences between SMEs and big businesses with regard to market-seeking motives. Regardless of size, most firms usually enter foreign markets first by trade units and sales. Marketing and managing cost efficiency occur in the second step. Big businesses have greater capabilities to exploit cost differences and use specific government incentives for foreign investment, which are frequently designed to stimulate large investment. Due to their specialization, SMEs are very strongly pushed to get close to their customers to satisfy their needs, and not just sell products. This is particularly true for specific highly specialized service companies, such as consultancies, or intermediary products sold mostly business to business.

Cost competitiveness is generally more important for larger firms while SMEs rely more on specialization, adaptation, and close relationships.

Lower labor costs in the host country are a more important factor for investing abroad for larger companies. This is the only significant difference between large firms and SMEs. Big businesses seem to be more sensitive to labor costs and have the capacity to select the location for outward FDI more carefully than do SMEs. This goes along with the importance of price competitiveness for a particular group. Because SMEs, on average, focus on niche markets in which products and services are more differentiated, are accustomed to the specific needs of known customers, and are often less price elastic, the cost of production is not of such importance as it is in standardized-good markets managed by large companies. Despite the higher importance of price competitiveness for big businesses than for SMEs, it is nevertheless the least important reason for firms investing abroad, regardless of size (Svetlicic, Jaklic and Burger, 2007:43).

Although other costs, such as cheaper inputs, lower transport costs, lower taxes, and tariff duties, are a little more important than labor costs, they are still much less important than market motives. The differences between small and big businesses are more accentuated. Big businesses seem to be more able to optimize costs on a global level and SMEs seem to be more niche-oriented, for which specific knowledge is more important than costs. As such, SMEs' products and services are often less price elastic because they are produced for a narrower set of end-customers, known business partners, or even MNCs. SMEs usually lack the advertising or market-power resources required for intensive marketing and image management, so they differentiate through innovation. The differences in resource seeking motives between SMEs and big businesses could also be explained in light of the actual business functions of foreign affiliates. The vast majority of production-focused affiliates are established by big businesses, whereas SMEs invested most frequently in sales and marketing-focused affiliates (Svetlicic, Jaklic and Burger, 2007:46).

In general, most of the SMEs finance their outward FDI with their own funds, frequently without insurance because of long procedures and fears of disclosing information for such projects to competing firms in small home countries. Among external barriers, companies assessed governmental support of their outward FDI activities as insufficient. SMEs have so far relied almost exclusively on their own sources of information and on their own personal and business

contacts. Large internationalized firms perform well and are frequently domestic-market leaders with good access to bank credit, whereas SMEs have difficulties obtaining such loans. Contrary to export-support programs that diversify more in terms of company characteristics (including size), investment promotion programs, if they are established, are not adapted to SMEs' particular needs (Svetlicic, Jaklic and Burger, 2007:48).

SMEs are more seriously constrained by financial and human resources compared to big businesses and they are likely to be more sensitive to local conditions than big businesses in undertaking FDI, especially when they make investments in developing countries (Urata and Kawai, 2000:80).

Big businesses can, on average, devote more resources to R&D activities and hence gain more technological advantages than SMEs, which more often focus on incremental innovation and reengineering. A similar finding is expected for marketing and advertising expenditures, which are important to entering foreign markets. The higher marketing expenditures of big businesses usually result in greater marketing know-how and more established brand names compared to SMEs (Svetlicic and Rojec, 2003).

Regarding the competitive advantages of SMEs, SMEs rely upon their organizational know-how much more than large companies. Big businesses on the other hand are expected to exhibit more advantages on technological and marketing know-how. However, the difference between SMEs and big businesses is not in organizational know-how but in technological know-how, whereas there are almost no differences in marketing knowledge. SMEs' major competitive advantage is their flexibility and adaptability such as having a more informal organisational structure, better internal relations and climate, and faster and frequently more personal response to business partners, hence compensating for their disadvantages in weak human and financial resources (Svetlicic, Jaklic and Burger, 2007:51).

SMEs are also the basis for entrepreneurial development and are critically important for building a country's industrial productive capacity that is flexible, resilient and interlinked. SMEs have certain advantages over big businesses in terms of flexibility, speed of decision-making, proximity to customers etc. In exploiting these advantages, SMEs make input factors available at higher quality or lower price, or create innovations on which consumers or other producers

downstream in the value chain may build. This is important for economic growth. The linkage potential offered by SMEs is of increasing importance in the attraction of foreign investment. Investing international companies seek reliable suppliers for domestic sourcing to build up their supply chains. Thus, there is a premium on the existence of domestic supporting industries in the competition for foreign investors.

Both Vincentz (1995:112) and Kurz and Wittke (1997:20) argue that 'low wage' options are more important for small and medium-sized enterprises (SMEs) than for big businesses. However, these enterprises have tried to make use of the new business opportunities in the African continent. According to Kurz and Wittke (1997) this is mainly the case if spatial proximity is of relevance. Spatial proximity reduces not only the time, risk and cost of transportation routes, but it enables Western companies to minimise risks of managing cross-national production networks without transferring managerial or engineering staff permanently to Africa. These aspects are of particular importance for businesses without experience of internationalisation, which in many cases is true for SMEs.

2.9 FOREIGN MODE OF ENTRY by SMEs

Research surrounding firm internationalisation has emphasised that the pursuit of foreign expansion is primarily concerned with the organisation of overseas operations and the various costs and benefits associated with each foreign market entry mode.

Consistent with Root (1994), a foreign market entry mode is an institutional arrangement that facilitates the entry of a company's products, technology, human skills, management and other resources into a foreign country. Owing to their lack of experience, skill and know-how small- and medium-sized enterprises (SMEs) need to be very cautious in the choice of a specific entry route (Oviatt and McDougall, 1994; Collinson and Houlden, 2005). This explains why the major structural processes underlying internationalisation have been mainly associated with multinationals with few authors devoting time and effort to adapt the frameworks derived from large corporations to the SME context (Coviello and McAuley, 1999).

There are basically two different foreign mode of entry by SMEs, that is the market-based non-equity and hierarchical-based equity mode of entry. These two modes differ dramatically in resource commitment, risk, return, control, and other characteristics (Pan and Tse, 2000:539).

The market-based non-equity entry modes consist of direct/indirect exporting, licensing, franchising and management/manufacturing contracts while the hierarchical-based equity entry modes include the wholly owned foreign subsidiaries (FDI) and JV (Nakos and Brouthers, 2002). Analysing the foreign entry modes of an SME shows its ability to regulate organisational activities with respect to exercised control, levels of dissemination risk and resources allocated for foreign markets. SMEs may decide on their mode of foreign entry depending on the level of control they anticipate having in the foreign affiliate. For example, SMEs may choose the FDI (wholly owned) if they anticipate a relatively high control; joint-ventures (JV) if it anticipates medium level of control and licensing for low control in the foreign affiliate (Hill et al, 1990). To add, SMEs focusing on specific market segments are able to reduce investment risks and resources and, consequently, to use more investment-intensive foreign modes of entry (e.g. JV, wholly owned subsidiaries), which enable them to exercise high levels of control (Nakos and Brouthers, 2002). Control generally refers to the level of authority a firm may exercise over systems, methods and decisions in the foreign affiliate (Ekeledo and Sivakumar, 2004).

Study of the firm's expansion into foreign markets has received increasing attention at both conceptual and empirical levels. A number of theories and conceptual frameworks have been put forward outlining a company's decision to initiate the internationalisation process (Whitelock, 2002). The conceptual framework where particular emphasis has been placed on is the incremental stage model, the resource-based model, the network model and the Dunning eclectic paradigm (Dunning, 1993).

Firms usually undertake international activities on an incremental basis to gain experience, to adopt a more positive perception of risks and to develop know-how for entry into additional markets (Johanson and Vahlne, 1990). Specifically, Johanson and Vahlne (1990) state that the firm's engagement in a specific foreign market develops according to an established chain, i.e. at the start no export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary and finally through full engagement. Although Oviatt and McDougall (1994) cite various situations in which the incremental stage model may not apply, this conceptual framework is intuitively appealing and consistent with some elements in the resource-based view of the firm. The resource-based model, in turn, presents a holistic view of the firm in such a way that decisions like country market choice, mode of entry, product

strategies among others are made not on a stand-alone basis, but within a coordinated framework of resources, capabilities and environmental contingencies (Bell and Young, 1998). This framework assumes that certain intangible assets such as top management knowledge and experience about foreign markets may substitute other resource types gained through path-dependent developmental stages (Reuber and Fischer, 1997).

Another significant strand of internationalisation research is the development of the network model (Bell, 1995). Network theory views markets as an interrelated web of relationships between a number of players including customers, suppliers, competitors, family, friends and private and public support agencies. The network approach goes beyond the incremental stage model by suggesting that the firm's strategy is influenced by a variety of network relationships (Coviello and Munro, 1995). Another important theoretical framework that has been applied to the context of SME internationalisation is the eclectic theory proposed by Dunning (1993). This framework represents a multi-theoretical approach and allows for inclusion of new determinants (OLI dimensions) for predicting an SME's entry mode (Andersen, 1997). The determinants of this eclectic theory proposed by Dunning are ownership-specific advantage, location advantages and internal advantages.

2.9.1 Ownership-specific advantages

When a firm decides to enter into a new foreign market, it should be guided by its ability to effectively exploit its own competitive advantages. Although the ownership advantage dimension is firm-specific and is related to the accumulation of intangible assets (e.g. patents, licences, etc.) not all of these are internationally transferable. Existing literature holds that, if an ownership advantage could be transferred internationally without losing its value, the firm would prefer high-control modes of entry, which ensure an efficient implementation of the firm's unique advantages and provide a better protection of its knowledge and differentiated products (Nakos and Brouthers, 2002). Furthermore, by gaining control over external operations, firms can substantially reduce the dissemination of risk (Pinho, 2007:718).

A number of authors have identified various SME specific resources and capabilities that provide important ownership advantages including firm size, extent of international experience and ability to produce differentiated products (Nakos and Brouthers, 2002). Although findings regarding the impact of firm size on foreign entry mode selection have been inconsistent, if not

outright controversial, empirical evidence emphasises its importance in initiating the international activity of a firm. Larger firms tend to possess greater resources and competencies for effectively competing in foreign markets and, as a result, are in a better position to make the necessary investments enabling them to take advantage of these resources (Agarwal and Ramaswami, 1992). Similarly, large size reflects not only the firm's ability to absorb the high costs and risks associated with operating in foreign markets, but also enforces patents and contracts in international expansion through sole ownership. Though SMEs are not expected to have higher resources or skills for entry into a vast number of diverse markets, they favour selective strategies and concentrate their efforts on a small number of high-potential foreign market segments yielding potentially high returns (Nakos and Brouthers, 2002).

Several authors, however, have noted that size, competency and resource availability may differ sharply among SMEs in such a way that medium-sized firms are expected to possess greater managerial and financial resources than their smaller counterparts. Therefore, it is likely that medium-sized firms tend to prefer equity-entry modes, while smaller ones prefer non-equity entry modes (Osborne, 1996). This implies that the greater the size of the SME, the higher the propensity for choosing an equity-entry mode.

International experience defined as practical knowledge gained by doing business in the host country is also an important driver for determining the choice of a specific entry mode (Agarwal and Ramaswami, 1992). Thus, firms having greater international experience are able to bear the risk associated with committing substantial resources into the foreign markets and, at the same time, have developed more sophisticated processes and systems for efficiently managing their international operations. Such international experience, particularly that of geographic experience which is rooted in the firm's familiarity with a region of the world as well as attendant (network) relationships, offers greater control leading to a move from non-equity to equity investments. Hence, higher SME international experience favours equity-entry modes (Pinho, 2007:718).

Empirical studies on ownership advantages have also underscored the importance of the firm's ability to differentiate its products and its ability to introduce new technologies and new organisational and administrative processes. The literature holds that, if the firm's unique advantages are not adequately protected, not only does it run the risk of losing competitive

advantage, but it may also be vulnerable to potentially opportunistic behaviour on the part of direct competitors. In an attempt to avoid such risks and to safeguard its advantage over direct competitors as well as to maximise its return, the firm may seek control by choosing an equity-entry mode. Therefore, protecting the proprietary nature of SME innovations is an important factor for choosing an equity-entry mode even if this decision runs counter to potential returns (Nakos and Brouthers, 2002).

2.9.2 Location-specific advantages

Location advantages assign specific factors to the host country and are assumed by relevant literature to act as potential drivers for the firm's internationalisation. Although location-specific advantages are not a big predictor or indicator of the choices of mode of foreign entry as they are available to all firms in a host country market, not every firm is able to maximise its return in an equal way. Markets with high-current demand and high potential for future demand provide a firm with long-term investment potential. Therefore, the estimated growth of a particular market may lead SMEs towards a greater degree of commitment, i.e. the greater the expectation in market sales/growth potential, the higher the propensity for the SME to choose an equity-entry mode (Pinho, 2007:719).

In addition, firms entering new foreign markets may be confronted with unstable economic, legal and political systems creating high-investment risk environments thereby discouraging their predisposition towards international commitment (Agarwal and Ramaswani, 1992). In such high-investment risk environments, firms will not tend towards a high-involvement entry mode due to the potential for loss of their assets and investments. Besides, once a financial commitment has been made, it may be very difficult for a firm to safeguard its investments, particularly in rapidly changing environments (Nakos and Brouthers, 2002). For this reason, the lower the perceived risk associated with the host country, the higher the tendency for an SME to choose an equity-entry mode (FDI or JV).

Low-operating costs associated with marketing activities favour high international commitment to foreign markets leading to the choice of equity-entry. Also, perceived cultural distance between home and host countries (in terms of similar business practices), have an effect on the choice of a specific entry mode. Therefore, it is assumed that the propensity for choosing an

equity-entry mode arises out of a low-distance perception in terms of culture and business practices between the home and the host-countries (Pinho, 2007:719).

2.9.3 Managerial specific characteristics

The relative weight attached to the role of decision-makers within the internationalisation process varies depending on the theory and conceptual framework that is invoked. At one end of the spectrum, internationalisation theory completely relegates the importance of decision-makers to an economic and transaction-based rationale and also the international network relationship the individual decision makers got (Collinson and Houlden, 2005). Lenidou et al. (1998) have examined the possible effects of a number of objective and subjective decision-maker characteristics and their attendant impact on the firm's internationalisation. Among the objective characteristics, particular emphasis has been placed on the decision maker's age and educational level. The more highly educated the decision-makers are, the more likely of them being open-minded, interested in foreign affairs and willing to objectively evaluate the potential advantages associated with internationalization. Therefore, it is expected that the higher the entrepreneur's (i.e. the founder) level of educational attainment, the greater the SME propensity to choose an equity-entry mode (FDI).

In line with Lenidou et al. (1998), a number of characteristics associated with decision-maker psychological traits, perceptions, attitudes and behaviours should be taken into account. The importance of characteristics such as aversion to risk-taking and market specific managerial knowledge (experiential knowledge) fall into this category. It is generally recognised that once a firm enters overseas markets, a variety of risks can endanger its progress towards internationalisation. Therefore, when managers are willing to engage in high-risk activities, the degree of threat attached to international operations is reduced. Thus it is expected that the higher the entrepreneur's (i.e. the founder) orientation for risk, the greater the SME propensity for choosing an equity-entry mode.

The relationship between market specific knowledge, acquired mainly through effective operational experience in a foreign market and the firm's internationalization process, has been addressed by a number of authors. Lack of market specific knowledge generates uncertainty and heightens decision maker's perception of risk. In these cases, managers (who are seen as being

risk-averse) become cautious about committing substantial resources to the foreign market and, as a result, would tend to choose an equity-entry mode (Pinho, 2007:720).

2.9.4 Ownership structure (family and non-family owned)

With regard to ownership structure and considering that some SMEs are family owned, it is expected that their strategic orientation, particularly with respect to internationalisation, is inseparable from the personal objectives of the owners reflecting their own personal needs, values, beliefs and philosophies. Family members are interconnected through complex bonds nurtured over time, creating a sense of responsibility and loyalty to the family. This sense of fidelity permeates business goals and the firm's strategy in such a way that it supersedes profit and revenue goals (Kotey, 2005). Growth in these types of firms takes place slowly and in a conservative manner since family-firms show a less liberal management style and react slowly to changes with informal management practices (Dyer and Handler, 1994). Thus, it is likely that family firms gradually commit to international markets by means of non-equity entry modes due to the aforementioned difficulties for accommodating growth, inherent conservatism and general aversion to risk (Harris et al., 1994).

Given the aforementioned analysis, this study contributes to the current body of knowledge in the area of SME internationalisation by combining two key dimensions of Dunning's eclectic framework (firm and market specific factors), while also including the managerial and ownership structure characteristics, whose dimensions have been assumed to be important drivers for SME internationalization.

2.10 SUMMARY

This chapter examined the argument for and against FDI in perspective of the host and home country. Foreign direct investment (FDI) is often considered in the host country as one of the major sources of external capital, new technology, and advanced managerial skills. It is also perceive to create new employment opportunities, reduce poverty, reduce income inequality, reduce the flight of domestic capital abroad, open overseas market opportunities for both the home and the host countries, and has a positive impact on productivity and economic development of the host countries (Guasch, 2002; Harris, 2003). However when these businesses carry out FDI, their country of origin (home country) sometime perceive that this outward FDI

can lead to increase in unemployment and low economic growth in the home country (WIR, 2006:195).

Contrary to the economic and developmental contributions FDI offer to the host country (especially in developing countries), the FDIs could use their superiority, global networks, advertising skills and a spectrum of support services to severely damage the economies of host countries through restraining domestic entrepreneurs and local competitors. In the same way, politically, the FDIs can gain control over local assets and jobs, thereby considerably influencing the direction of political decisions on all levels within the host country (Kamara, 2008:35).

This chapter further examined the different motives for FDI and suggested that supply/resource-based FDI or export-oriented FDI will be a better type of FDI that can improve the economic growth and development in the African continent. Beraho (1997:112) suggested that for Africa to achieve the Millennium Development Goals (MDG), it has to stop over-relying on the export of natural resources and focus on Greenfield investments in the manufacturing sector. This form of FDI will have the capability of increasing employment, infrastructure and technological skills. Beraho (1997:112) further emphasis that the African governments have to encourage foreign SMEs investments which have a greater spill over effect than large firms (MNEs) if they want to move in the right direction in terms of job creation, poverty alleviation and a redistribution of wealth.

This chapter also showed that with respect to the form of FDI attracted to the African countries, most of the FDI flows attracted have been in the form of mergers and acquisitions. Greenfield investments which have a greater prospect of enhancing economic growth in the host country have not been attracted to a large extend in Africa. One of the main reasons for Africa not pursuing much Greenfield investments or resource-based FDI is its unfavourable investment climate. If Africa has a favourable investment climate, it has a huge potential to pull FDI that will add value to both its human and material resources alongside its industrial sectors to deliver a more competitive Africa with greater and better quality output. As such it will change the nature of FDI, and the profits from Africa's economic resources will be retained at home in order to start creating a better standard of living for its own people (Versi, 2005:4).

The next chapter will review the literature on the external environment for FDI. The chapter will examine external environmental factors such as political, economic, social, technological and legal (PESTLE) factors. It will also discuss the investment climate of South Africa.

CHAPTER THREE

EXTERNAL ENVIRONMENT FOR FDI

3.1 INTRODUCTION

The external environment for FDI plays a major role in promoting market-led growth and reducing poverty. Reducing poverty and improving living standards depends upon broad-based economic growth, which will only take place when firms improve worker productivity by investing in human and physical capital and technological capacity i.e. investing in knowledge, equipment and organizational structure. But firms will only invest when the investment environment is favorable (Clarke et al., 2007:16).

For most of the 1980s and the first part of the 1990s, low or declining GDP growth, combined with rapid population increases, brought about widespread deterioration of socio-economic conditions in Africa. Consequently, while per capita income increased in other developing regions between 1980 and 1995, Africa experienced an average decline of 15 percent during the same period, with an estimated 40 to 49 percent of the population living in absolute poverty (especially in sub-Saharan Africa) (World Bank, 2003). After the mid 1980s, it was clear that comprehensive and credible macroeconomic reform and adjustment programs were needed to stem the deteriorating economic and social conditions. This led a number of countries to pursue reform programs, with support from bilateral and multilateral development agencies. The reforms aimed at stimulating economic growth by putting in place incentives and measures that generate more savings, investment and exports. Anchored on economic liberalization, the reforms emphasized the more efficient functioning of markets and the increase of foreign capital flow in Africa (Anyanwu, 2006:43).

FDI is an important determinant of economic growth and development in developing countries. Studies have shown that the creation of adequate investment environment facilities increase trade and investment activities which are crucial for long-term growth (Mian and Alam, 2006). Internationally, businesses are continuously searching for new markets or countries with cheaper manufacturing costs to relocate their production. According to Wei and Christodoulou (1997:625), low production costs and abundant labour supply in the host country were the two most important benefits sought from a FDI, while law and regulations were perceived as major

constraints. However, Africa with the abundant resources and the availability of cheap labour has not attracted its fair share of FDI. Luiz (2007:60) suggested that part of the reason is that the risk of doing business on the continent is seen as too high because of the perceived high levels of political and policy instability. Loss of trust and confidence has a huge influence on any FDI decision and also the host country government's policies and attitude affect FDIs (Wei and Christodoulou, 1997:629).

Investors, both domestic and foreign need a good investment climate or an "enabling environment" where they can investment and then have a good return on investment with the least minimal risk attached. Investors may be attracted by natural resources and large domestic markets but will not invest in areas or country where they think will be costly for business or might lose their money due to political or economic upheaval. The question then for many developing countries and transition economies is how best to provide a good investment climate so as to attract FDI that will contribute to sustainable development.

This chapter will identify the various external environmental factors that impact FDI, most especially those in Africa and the reasons for low investments in Africa. The chapter also discusses how to improve the investment environment of Africa. Finally, the chapter will highlight the factors influencing the investment climate of South Africa.

3.2 FACTORS IN THE EXTERNAL ENVIRONMENT AFFECTING FDI

The external environment is constantly changing as the economic, political and regulatory environment changes. These changes pose various opportunities for FDI, as do the motives and forms of FDI. Certainly, FDI was different in the 1970s than it was in the 1990s or than it will be in 2020. The entrepreneurial ecosystem consisting of key components such as micro, small and medium sized enterprises (SMEs), multinational corporations (MNCs), local chambers of commerce, associations, cooperatives, foundations and network of individuals. Also, it includes local governments, universities and other research organisations, banks and financial systems. All these key components and various sectors will need to work together in a coherent and collaborative fashion if the entrepreneurial system is to function effectively (Wilson, 2006:53). Hence, if they do perform efficiently, they will be able to provide a good investment climate for foreign investors.

The climate for investment is determined by the interplay of a whole set of factors such as political, economic, social, technological and legal (PESTLE), which has a bearing on the operations of a business (Mian and Alam, 2006). Theories supporting FDI in developing countries argue that the recipient countries need to fulfil some basic preconditions like a good macroeconomic policy, adequate tax systems and stable regulatory practices, if they want to create a satisfactory environment for investment. Additionally, the Ownership, Location and Internalization (OLI) theory which is generally viewed as the preeminent theoretical framework for foreign direct investment decisions (Dunning, 1993) do take the PESTLE factors in to consideration when deciding to go internationally (Oman 2000). This therefore implies that for countries to attract FDI, they need to provide a favourable external environment which consists of the PESTLE factors.

Moreover, the investment experiences in the African countries show that free trade/outward-orientation alone is not sufficient to ensure FDI inflows. Similarly, the African continent has a high degree of uncertainty which makes investors reluctant to invest in Africa despite its enormous profitable opportunities (Naudé and Krugell, 2003:3). This therefore raises the question about the effect of the external environment of the African continent on attracting FDI.

Below are the following external environmental factors (including the PESTLE factors) that will influence investors' decision to carryout FDI in a host country.

3.2.1 Political Factors

Political instability in a host country changes the "rules of the game" under which businesses operate and that impact on the profits and future of FDI inflows. Political factors like change of government, attitudes of opposition parties, transparency in bureaucracy, corruption, terrorism etc, are seriously considered by investors in their pre-investment decisions. Possible changes in the political stability of a country constitute a political risk. Political risk is said to be existing when unanticipated discontinuities affecting the corporation resulting from political changes can occur in the business environment (source).

Also in the host country, a company can be affected by two main types of political changes; changes in the regime under which it operates or changes in the political stability of the country. The regime is considered to be the rules under which the economy, including the foreign firms

operate in the country. Political instability affects corporations both directly and indirectly. Companies are directly affected because government instability often leads to administrative paralysis while they will be affected indirectly because the political instability often leads to changes in the regime. In extreme cases, companies are forced to leave the country (Hallward-Driemeier et al, 2003). It can therefore be hypothesized that the investment in a country can decrease when a country is unstable and increase when stable.

Some African countries experience political instabilities such as high incidence of wars, frequent military interventions in politics, and religious and ethnic conflicts, thus making most investors to perceive the entire continent, though wrongly, as unstable for investment purposes. Nevertheless, the fact that political instability is contagious and many African countries are interdependent has not helped matters in providing an attractive environment for FDI (Mlambo and Oshikoya, 2001).

3.2.2 Economic Factors

The economic factor is a huge environmental factor that influences how and why a foreign investor should invest abroad. In Sub-Sahara Africa (SSA), it is widely regarded that economic factors pose a bigger constraint to FDI in the region than the political factors. Issues such as education, quality human resource, health and infrastructure are said to be deteriorating in most countries in the SSA over the years and are now below standards compared to other countries in other developing areas. However, with such fading education and health systems, weak physical infrastructures, poor human resource and lack of back up services for enterprises, it will always be difficult to improve the competitiveness of Africa's investment climate (Pigato, 2000:3).

Other economic factors that will have an impact on investors' decision making about a host country environment are: tariffs, openness to trade, trade barriers, exchange rate and inflation rates. High protective trade barriers make exports by firms to a potential host country uncompetitive. Potential marketing cost savings from avoiding protectionist barriers, as well as transport cost reductions, encourage MNCs to enter the market through FDI, and to serve their customers with local facilities (Wang and Swain, 1997).

The exchange rate is also an important economic environmental factor that influences FDI flows to host economies. There are broadly two schools of thought concerning the significance of

exchange rates as a determinant for FDI, namely; the currency-area hypothesis and the considerations of exchange rate risk. The currency-area hypothesis argues that firms from harder-currency countries are able to borrow at lower costs, and to capitalise the earnings on their FDI in softer currency countries at higher rates, than the local firms.

The other school of thought takes account of the exchange rate risk to which firms are exposed when undertaking FDI, and how that influences the decision to locate in a particular country. The nature of the risk firstly depends on the firms' activities in the host country. If the firms produce for export, depreciation is beneficial, making output more competitively priced. However, if a substantial portion of inputs is imported, depreciation raises costs. Also, even when the nature of the firm activity is not taken into account, the exchange rate may be important. Large fluctuations in the rate discourage FDI flows, as they increase uncertainty associated with the economic environment of the host country (Urata and Kawai, 2000). The exchange rate further determines the value of repatriated profits. In developing countries, a deteriorating exchange rate and foreign exchange position may further threaten restrictions on such remittances, irrespective of what exchange controls are normally in place (Lucas, 1993).

On the other hand, while the exchange rate reflects external economic balance or imbalance, the inflation rate indicates a country's internal macroeconomic stability. Increased instability adds to uncertainty, and makes investment unattractive. A high rate of inflation is a sign of internal economic tension, and the inability or unwillingness of the government and the central bank to balance the budget, and to restrict money supply. Inflation increases uncertainty regarding the business environment. Inflation also increases the cost of production (Urata and Kawai, 2000). Consequently, it has a negative impact on FDI flows.

3.2.3 Social Factors

Social factors in this context refer to all other factors which are not political, economic, technological and legal. They refer to issues such as crime, security, labour issues, bureaucracies etc. Corruption is one of the greatest obstacles to economic and social development, as corruption undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. Corruption also stifles private sector growth and hurts the poor because it diverts public services from those who need them most. Corruption adversely affects various aspects of business operation from start-up to regular business

transactions and can easily deter investors. This is supported by modern empirical researches that have prove the measures of corruption to be significantly and negatively related to FDI inflows (Wei, 2000).

With regard to labour costs, there is a clear external consideration in a MNC's decision to employ its ownership advantages outside its home country. As wages rise, FDI aimed at low-cost and efficient production, tends to be discouraged. However, as wages rise relative to the cost of capital, there may be a tendency to substitute foreign capital for labour (Lucas, 1993). Wang and Swain (1997) emphasis that it is always important for wages to reflect productivity as some firms may decide to seek skilled labourers and professionals who are capable of improving productivity rather than pursuing low wages in isolation.

Conversely, most MNCs aim to maximise profits through efficiency gains and/or cost minimisation. This issue of labour costs in an environment or country is of great concern for FDI nowadays. This is evident as more FDI especially the manufacturing FDI are moving from the western part of the world (USA and Western Europe) to the Eastern part (Asia) in order to seek a more cheap and efficient productive labour (Naudé & Krugell, 2003:4). Similarly, Japanese SMEs too are taking advantage of low labour cost (cheap labour) as they are locating their production units in neighboring Asian countries and then exporting back the final products to Japan (Urata and Kawai, 2000).

Labour disputes also have a huge influence on foreign investors' decision making as foreign investors become less attractive to host countries with greater incidence or severity of industrial disputes or strikes (Yang, Groenewold and Tcha, 2000).

Furthermore, countries that provide skilled labour and quality human resource are potential destinations for FDI. Governments investing in human resource development and developing a large proportion of skilled workers in their population will benefit in attracting and keeping investment. It is also important for the host country government to continuously be on a look out for any possible or emerging needs for investors if they want to attract FDI (Dollar et al., 2003).

In addition, infrastructure is considered a social factor that plays a significant role for the external environment to become feasible for foreign investment. Infrastructure refers to the quality and quantity of physical infrastructure such as power, transport and telecommunications.

The better the infrastructure of the host economy, the more attractive it is to foreign investors. Good transport facilities (roads, ports, rail and air) and low cost utilities (telecommunications, energy and water) are important infrastructural factors in attracting and keeping FDI. This therefore implies that countries with quality and available infrastructure are capable of becoming good investment destinations as they will be able to easy foreign firms' productivity and growth (Canning and Bennathan, 2000).

3.2.4 Technological Factors

With the world evolving around rapid technology advancement, countries with high technological capacity and man power are capable of attracting more FDI. The state of a country's physical and technological infrastructure is a significant determinant of transaction costs and of a country's suitability as an export base for competing world markets (Ikiara, 2003).

3.2.5 Legal and Regulatory Factors

The Investment Climate Advisory Services (ICAS) of the World Bank Group (2010:6) defined the term regulation as the diverse set of instruments by which governments set requirements on businesses, citizens and the public sector. Regulations include laws; formal and informal orders and subordinate rules issued by all levels of government; and rules issued by non-governmental or self-regulatory bodies to whom governments have delegated regulatory powers. Governments with effective regulations can provide businesses with lower cost and policy risk thus changing the commercial environment for firms to performance better (ICAS, 2010:9).

Given the creation of specialised agencies across the world (known as Investment Promotion Agency) by national governments towards supporting and promoting SMEs and FDI, shows how the world governments deem the importance of entrepreneurship programmes and internationalisation. These agencies often provide valuable information, critical networking platforms and allow the exchange of ideas which are vital for internationalisation (Wilson, 2006:53).

Legal and regulatory policies are critical to providing the right environment and incentives at the national, regional and local levels. The policy framework of FDI in Africa is getting better over the years even though the FDI environment is still inadequate to attract high quality, efficient-seeking "globalising" FDI. This is so as the policy framework still suffers from a number of

deficiencies such as barriers to entry which still exists in some countries as certain sectors are reserved for domestic firms only. Also, the registration procedures in some sub-Sahara African countries are cumbersome for foreign investors hence increasing their transaction cost. This is a typical situation in Cameroon where there is a substantial amount of paper work the investor has to go through before starting a business operation and the foreign investment must have 35% local equity (Pigato, 2000:10).

To add, most businesses and investors in developing countries especially in Africa often complaints about the complexity and number of government formalities and paperwork they have to go through before starting their business. The World Bank Institute (2003) describes such legal, regulatory and government formalities that hinder both local and foreign investor from investing in a country or area as administrative barriers. Below are some of the administrative barriers listed by the World Bank Institute that affect foreign investors from pursuing FDI;

- immigration and expatriate visas, work permits, and residence permits;
- investment approval (if any) and other preliminary authorizations;
- registration procedures, including company, tax, social security, municipal registrations and registration of intellectual property (trademarks, etc.)
- environmental permits and approvals
- utility hook-ups, including water/sewerage, electricity, telephone
- Other relevant public services (e.g., gas, heat, roads, etc.);
- import/export procedures;
- foreign exchange procedures;
- hiring/firing procedures for labour; and
- Key government inspections such as fire, sanitary, worker safety, and environment.

Likewise, such administrative barriers tend to have negative effects on the attraction of FDI as these administrative barriers have a propensity to increase corruption in the public sector, divert resources away from productive investments and reduce competition in the global market. Therefore such issues will discourage entrepreneurship and foreign investment due to disproportionate burdens and difficulties to enter the markets (World Bank Institute, 2003).

According to Everhart and Sumlinski (2002) corruption lowers the quality of public investment, which in turn lowers private investment. Naudé & Krugell, (2003:4) pointed out that the main factors inhibiting investment in Africa are weak law enforcement originating from corruption and the lack of a trustworthy mechanism for the protection of property rights as foreign investors prefer to make investments in countries with superior legal and judicial systems.

Also, governments with regulations that impose direct business costs often reduce economic performance, employment generation, exports, and FDI inflows. Reducing direct regulatory compliance costs can create a one-time boost in performance at microeconomic and, depending on the scale, macroeconomic levels too. The potential benefits of regulatory reforms that reduce costs are obvious in most productive countries than in the least productive. Even where fundamentals are good, regulatory reforms that cut costs without cutting benefits can increase both government effectiveness and economic performance. Also if the regulatory reform reduces the barriers to entry, increases transparency, reduces regulatory risks, or otherwise increases competitive forces, the positive economic effects are longer-lasting and more powerful. That is, inducing competition is more important to sustainability than cutting compliance costs (ICAS, 2010:15).

Moreover, the Investment Climate Advisory Services (ICAS, 2010:15) suggested that the negative effects of high regulatory costs, risks, and entry barriers seem appropriate for developing countries where businesses compete in thin capital markets; face fierce price competition in export markets and pressures from low cost imports; confront competition abuses; confront high regulatory risks due to non-transparent and captured policy processes; and compete with large informal sectors.

Pigato, (2000:11) proposed that for Africa to improve its legal and judicial system so as to support foreign investors, it has to develop reforms such as corporate law, contract law, bankruptcy, labor law and property rights.

3.2.6 Host Government Policies

The host-government policies are location-specific factors that may influence profitability and MNCs' decision to undertake FDI, in a number of ways. Such policies include incentives and performance requirements (UN, 1995). Host governments often offer incentives to increase the attractiveness of their location. These incentives aim to encourage FDI inflows by reducing costs and making investment more profitable. Specific measures include tax breaks and trade incentives, like duty-free imports of inputs. The incentive schemes are often closely linked to efforts by the host government to encourage investment in export industries, or preferred sectors, or in less developed areas of the country. Most host countries believe that incentive schemes are crucial for attracting FDI, because competing economies have similar schemes (Naudé & Krugell, 2003:4).

Naudé & Krugell, (2003:4) also stated that related to incentives are performance requirements. A host government can place performance requirements on investors in an attempt to ensure that the benefits of FDI accrue to the country. This takes the form of requirements concerning the employment and training of local personnel, local content, technology transfer, and the exporting of output. Where incentive schemes may attract FDI, the interference of government performance requirements may deter it. To negate this possible negative effect, governments often link meeting the requirements to fiscal incentives like tax rebates. However, Dees (1998) argued that these specific incentives do not have a major impact on FDI flows and that incentives influence the decisions of investors only marginally. Rather, removing restrictions and providing good business operating conditions will affect FDI flows positively.

To add, the lack of policy transparency has been an issue in the investment climate especially in Africa where investors find it difficult to assess specific aspects of government policies. This is partly because of the constant changes in the government structure and policies on the continent and the lack of transparency in macroeconomic policy. This lack of transparency in the economic policy tend to reduce the incentives for investment (if there was any available) as it raises the investors' transaction costs (Dupasquier and Osakwe, 2003).

There are some host-government policies such as industrial policies towards FDI that can hinder the investment environment in the host country. Emery et al. (2000) suggested that the administrative procedures in developing countries are significant barriers to FDI. That is, after the decision to locate has been made by the investors, it can become dreary in the implementation process. For example, it can take one to two years in Ghana and Uganda to establish a business and become operational, 18 months to three years in Tanzania and Mozambique, 6 months to one year in Namibia while it takes just six months in Malaysia. These excessively complex registration procedures, combined with a lack of institutional capacity in host countries, can lead to corruption and additional expenses to foreign investors (Te Velde, 2001:17).

3.2.7 Market Size and Growth

A firm's decision to invest in a foreign country is often associated with demand factors in the host country. The decision to produce abroad is linked to the potential revenues generated by sales of the product in that particular market. Therefore, the size of the market, plus its growth potential, in the target country is an important variable in determining whether foreign direct investment in a particular market will be made (Rama, 2005:159).

Lucas (1993) also supports this fact by emphasising that size and growth of the host market is a very important environmental factor that influences FDI in a host country. This is to say foreign investors are likely to be attracted to host countries with large local markets and higher levels of economic development. This factor is of more importance to larger firms as the size and growth of the host market ensures the large firms of a market for its product, and provides them to utilize economies of scale (Lucas, 1993).

3.2.8 Ethics

Velasquez (1982:6) defines ethics as having the feelings to decide what is right or wrong. It could also mean accepted standards in terms of personal and social welfare; as to what is believed to be right. Ethics is concerned with the moral judgment involved in moral decisions. Ethics consists of standards and norms for behaviour that are beyond laws and legal rights. It also consists of those unwritten rules developed for interaction with each other. These unwritten rules govern individuals when they are sharing resources and honouring contracts. Moreover, ethics is more than just common or normative standard of behaviour as it involves honesty,

fairness and justice. The principles of ethics when honoured ensure that the playing field is level, that one win by using their own ideas and that one is honest and fair in interactions with each other, whether personally or in business (Jennings, 2009:4-5).

Velasquez (1982:1) further emphasis that business ethics is applied ethics. It is the application of understanding what is good and right to the assortment of institution, technologies, transactions, activities and businesses. Business ethics is also a specialized study of moral right and wrong. It concentrates on how moral standards apply particularly to business policies, institutions and behaviour.

Philosopher, business ethicist and corporate governance expert Dr. Michael Novak describes business ethics as having a great deal more than obeying the civil law and not violating the moral law. It means imagining and creating a new sort of world based on the principles of individuals' creativity, community, realism and other virtues of enterprise. Dr. Novak also referred to business ethics as respecting the right of the poor to their own personal economic initiative and their own creativity (Jennings, 2009:50).

Developing personal qualities such as honesty, care, compassion, loyalty, integrity, gratitude, generosity, determination, fairness, humor, trust, trustfulness and a strong sense of justice helps one to detail with ethical dilemmas. Good character traits like these are called virtues. An ethics of virtue assumes that being human entails living in community with others and developing certain virtues or habits that enables a humane life (Botha et al, 2007:302 and 308).

However, great theorists such as Aristotle and Plato taught that solving ethical dilemmas requires training and that individuals solve ethical dilemmas when they develop and nurture a set of virtues. They suggested that to have good ethical choice in business, one could learn these virtues by studying the history of business through individual case studies, historical perspective readings and insights into economic cycles (Jennings, 2009:8).

Therefore, to develop good ethical choices in business and to solve corporate governance dilemmas in South Africa, the King Report of corporate governance was established. The first King Report was released in 1994 by the King Committee on Corporate Governance, which was formed in 1992. The purpose of this report was to promote the highest standards of corporate governance in South Africa. The King Report 1994 went beyond the financial and regulatory

aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders with regard to the fundamental principles of good financial, social, ethical and environmental practices (King 1 Report, 1994).

The King Report 1994 was later reviewed leading to the King Report 2 of 2002. The Report listed seven characteristics of good corporate governance:

Corporate discipline: This implies a commitment to adhere to behaviour that is universally recognized and accepted to be correct and proper.

Transparency: This implies the ease with which an outsider is able to make meaningful analysis of a company' actions;

Independence: This implies the extent to which mechanisms have been in place to minimize and avoid potential conflicts of interests that may exist;

Accountability: This means individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions;

Responsibility: This means behaviour that allows for corrective action and for penalizing management;

Fairness: Which implies that the systems that exists within the company must be balanced in taking into account all those that have an interest in the company; and

Social responsibility: This means a well managed company should be aware of, and respond to social issues, placing a high priority on ethical standards (King 11 Report, 2002).

Schwartz (2005) identified a set of universal moral values for corporate codes of ethics: trustworthiness, respect, responsibility, fairness, caring, and citizenship. Corporate codes of ethics contain valuable information about corporate commitments regarding desired behavior of management and employees. Such commitments have an impact on the individual behavior of members as well as on the organization as a whole in order to propagate its moral norms and values. Corporate codes of ethics are the normative claimed and desired practices that an organization develops with respect to moral behavior. Codes articulate norms for the regulation of the actions and moral responsibilities of management and employees toward its stakeholders.

Codes of ethics express the corporate mission and the normative responsibilities to which the organization aspires. In this manner, Kaptein and Wempe (2002) suggest that corporate codes can be instruments for achieving cohesion in daily operations. A code of ethics that articulates corporate values and norms offers employees guidance and support in order to fulfill corporate goals. Corporate reputation regarding ethical behavior of management and employees can have an important impact on economic corporate performance (Donker, Poff, Saif, 2007:530).

3.3 REASONS FOR LOW INVESTMENT IN AFRICA

For the past years Africa has steadily attracted a good number of FDI but these investment levels are low compared to other continents. Even though most of the African countries have improved their policies towards attracting FDI, they still have not attracted enough of globalizing FDI. Also it is surprising to note that the African region is still suffering from its poor image as an investment location despite their efforts to promote and market the African region. To add, there are some economic disparities that exist between Africa and other developing regions that make Africa still lacking behind in terms of FDI. Some of these economic disparities that need to be enhanced in Africa are infrastructure, human capital, supplier networks, technological capabilities and support institutions (Pigato, 2000:9). Nonetheless, the following factors below account for the low levels of investment in Africa.

3.3.1 Unfavourable Regulatory Environment and Poor Legal Framework

The lack of a favorable investment climate, including slow and complicated business requirements, inefficiency and bureaucratic red-tapes, contributes to the low FDI trend and domestic investment observed in Africa. Although most African countries are gradually improving the regulatory environment and policies that were not conducive in attracting FDI, they still have to speed up the process as they have to compete with a variety of well established conducive investment destinations (Anyanwu, 2006:59).

A number of African countries still have various taxes, incentive provisions, huge entry procedures and requirements that influence the decision making of foreign investors. Sectors such as tourism, petroleum and minerals are often placed under special approval administrations. The manufacturing sector in Botswana is a typical example where investors need to go through special approvals and bureaucracy like investment approvals from land board and district councils; to ensure they meet the criteria on capital adequacy, technical skills, and the interests of

the economy, before they can be accepted to invest in the manufacturing sector. Similarly, investors from outside the Central African Customs and Economic Union (UDEAC) region who want to invest in the Republic of Congo are required to deposit 1% of their invested capital in the country. In Gambia and Kenya, investors too need multiple licenses and have to go through several departments for their application to be approved (Pigato, 2000:10). Such delays to obtain a license and approval for operation are deemed by investors as very negative and discouraging. Thus, the African countries have to improve their regulatory and legal framework and fasten the approval of foreign operation if they want to increase foreign direct investment in the continent.

3.3.2 Reliance on Primary Commodities Exports and Increased Competition

According to Anyanwu (2006:60), several African countries depend too much on the export of few primary commodities for foreign exchange earnings. As such they become vulnerable to terms of trade shocks as the prices of these commodities are very volatile. In fact, as they become vulnerable to the terms of trade shocks, they tend to expose their country to high risk which then scares away foreign investment. Moreover, as the world economy becomes more globalised, the competition for FDI tends to increase among countries thus making it even more difficult for African countries to attract new investment flows. Most of African countries are at a disadvantage because of the severe competition resulting from trade and financial liberalization. Therefore, for the African continent to increase its competitiveness, it has to deepen its economic reforms and create an encouraging foreign investment environment (Anyanwu, 2006:60).

3.3.3 Small Individual Country Market Sizes and Image Issue

The individual country domestic markets in Africa are quite small and often fragmented compare to other several regions of the world. This is worsened by inadequate liberalization of intra regional trade, hence limiting trading opportunities for potential investors. These small and fragmented markets in Africa also contribute to the low levels of FDI in Africa as foreign firms find it difficult to exploit economies of scale and so discourage entry (Anyanwu, 1998). Another hindrance to investment in Africa is the negative perception of the continent, especially through adverse media.

3.3.4 Deficiency of Foreign Exchange and the Load of Huge Domestic and External Debt

In spite of the Heavily Indebted Poor Countries (HIPC) initiative, which has helped to reduce the external debt burden of a number of African countries, many of these countries are still beset by

the burden of both domestic and external debt (Anyanwu and Erhijakpor, 2004). Domestically, this discourages investment because the debt overhang distorts the incentive to invest while potential investors expect higher taxation to finance government debt. Also, potential foreign investors are discouraged from the huge resource requirements for servicing foreign debt as they become uncertain that the government will authorize the remittance of profits and provide foreign exchange for necessary imports. In addition, many African countries are characterized by chronic shortage of foreign exchange and restrictions on foreign currency transfers. These restrict the importation of spare parts and inhibit the maintenance of existing plants and machinery thus limiting domestic and foreign investment (Anyanwu, 2006:61).

Furthermore, Africa has underdeveloped capital markets and low domestic resource mobilization as a result of low savings ratio and huge capital flight. It is therefore necessary for Africa to develop efficient capital markets and increase per capita incomes as this will improve the savings ratios. Thus, if this is put in place Africa is capable of attracting more sustainable foreign investments (Pigato, 2000:11).

3.4 IMPROVING THE INVESTMENT ENVIRONMENT IN AFRICA

Stern (2002b) defines investment environment as the policy, institutional and behavioural environment, both present and expected, that influences the returns and risks associated with investment. An investment environment includes three broad categories. The first includes macroeconomic or country-level matters, such as monetary, fiscal, exchange rate policies and political stability. The second includes governance and institutions, including bureaucratic harassment and the financial and legal systems. The final category includes infrastructure necessary for productive investment, including transportation, electricity and communications. However, a productive investment environment can be broadly thought of as an environment where governance and institutions support entrepreneurship and well-functioning markets in order to help generate growth and development (Stern, 2002b).

As the world becomes more globalised, attracting FDI increasingly depends on the ability to provide a favorable FDI regime and competitive factors of production. A favorable FDI regime requires a stable, efficient, and service-oriented environment that welcomes investors into most economic activities without discrimination. Modern legal and intellectual property rights, effective competition policies, a strong judiciary and minimum bureaucratic harassment are all

important to attract foreign investors. The competitive factors of production are the crucial determinants of FDI as they no longer mean just cheap raw labour and basic infrastructures. Today they require adaptable labour skills, sophisticated supplier networks and flexible institutions. Tax incentives can enhance a country's attractiveness but if other factors are unfavorable, they will be insufficient to significantly increase inflows of FDI (Pigato, 2000:1).

International evidence suggests that for a country or region to further increase its attractiveness as an investment destination, it is necessary to improve the investment climate. The structure and administration of taxes and investment regulations, weak legal, judicial and financial systems, administrative "red" tape and corruption, all are significant in raising the cost of investing for businesses (Nonyane, 2008: 4). According to Makola (2003), many investors regard political and economic stability, availability of natural resources and a large and growing market as important factors to attract FDI. Nonetheless, the determinants that are better preferred by global world include; a favourable environment, low transaction and business costs, human capital, low cost infrastructure and open policies in export activities (Makola, 2003).

FDI requires long-term commitment by the host country, as well as a new and more effective approach to investment promotion. A sound investment climate is crucial for economic growth. According to a report by UNIDO (2002/3), countries have adopted their respective policies for attracting more investment. Some countries rely on targeted financial concessions like tax concessions, cash grants and specific subsides. Some countries focus on improving the infrastructure and skill parameter and creating a base to meet the demands and expectations of foreign investors. Others try to improve the general business climate of a country by changing the administrative barriers and red tape. Many governments have created state agencies to help investors through this administrative paperwork. Also most of the countries have entered into international governing arrangements to increase their attractiveness for more investment (UNIDO 200/3), which is vital for economic growth and development.

African governments have realized that if they want to gain the advantages that FDI provide, they have to first improve the investment environment so as to attract more sustainable FDI. One way for the African governments to improve the investment climate is to redesign their policy frameworks and trade treaties as well as reducing the international trade tariffs. However, some countries in the African region have improve their policy framework to international standards as

there is an increasing participation of African countries in international, regional and bilateral agreements dealing with FDI (Pigato, 2000:9).

Also, some African countries have taken steps to attract FDI by aiming at increasing the role of the private sector in the economy through privatisation. In addition, steps have been taken to ensure and maintain macroeconomic stability, such as the devaluation of overvalued currencies, and the reduction of inflation rates and budget deficits. African countries are improving their regulatory frameworks for FDI as some 26 of the 32 least developed countries in Africa, surveyed by UNCTAD in 1997, have a liberal or relatively liberal regime for the repatriation of dividends and capital (UNCTAD, 1998). Progress is further being made with trade liberalization, as well as the strengthening of the rule of law, and improvements in legal and other institutions that influence the FDI climate. Moreover, many African countries are establishing investment-promotion agencies, and have concluded bilateral investment and double taxation treaties, that contribute to the creation of a more secure environment for foreign investors on the continent (UNCTAD, 1995). These good practices have also been delivering some encouraging results.

Another way for Africa to improve its investment environment is for it to improve its legal, judicial, regulatory, and infrastructural environment. Too often, outdated legal systems, weak judicial system, and inadequate regulatory environments discourage private investment. And as governments liberalize their economies and divest state-owned enterprises, such systems are critical if the private sector is to take over such enterprises, invest additional resources, and operate them efficiently. These will also encourage the repatriation of flight capital for domestic investment. To add, African governments need to pay additional attention to making their economies more competitive and attractive to investment. A critical step in this regard is improvement in physical infrastructure that is best achieved through public/private partnerships. This is to say if they initiate and encourage more cooperation in infrastructure development projects such as in telecommunications, transportation, power generation, and water supply, that will lower transactions costs, boost trade, and increase the attraction of the continent to foreign investors (Anyanwu, 2006:63).

Countries in Eastern and Southern Africa that belong to the Cross Border Initiative (CBI) have tried to make their investment environment friendlier by intensifying the harmonization of investment laws and incentives that will create a common road map for investment facilitation.

The essence of this initiative is to easy trade transaction between CBI member countries by reducing inappropriate administrative and bureaucracy cost. This is achieved as they agreed to establish one-stop centers that will process all applications within 45-60 days and grant automatic approval (CBI, 1999). However, having such regional integration in many parts of Africa will increase the market size of that region and will help smaller countries to attract investors who were constrained by smaller domestic markets. Therefore, the strengthening of regional integration groups (like SADC) will be useful in reducing the incidence of domestic policy reversals and improving the credibility of economic policies in Africa.

Furthermore, Africa can improve its investment climate by continuously improving its governance systems and making human capital development its priority. This is actually in accordance with NEPAD's African Peer Review Mechanism (APRM) to promote good governance. Governments should be accountable for their actions, allow the rule of law to prevail, as well as respect private property rights. Further efforts should also be made to improve the efficiency and effectiveness of public institutions, if these are to serve as genuine partners for the private sector. Sustainable economic development also needs increased human capital investment to enhance the health and welfare of populations and generate the skills required in a competitive global environment. As human capital formation in Africa is now being severely threatened by the HIV/AIDS pandemic, a concerted response is needed to contain and stop it (Anyanwu, 2006:62).

Developing a favourable environment for foreign investment in Africa also implies building a stable political government and a good economic governance environment. Incentive schemes cannot be an alternative to low and stable inflation rates, a sustainable budget deficit, and a stable exchange rate. FDI may, however, be crowded-in by good infrastructure and domestic investment. This therefore calls for the fact that African countries should consider the type of FDI that they wish to attract. Some TNCs are market-seeking, and others are efficiency-seeking and export-orientated. Since African countries are relatively small and underdeveloped, as a result, effective demand is limited, which leaves efficiency seeking FDI not to invest in Africa. This means that the openness of the economies and labour costs will be paramount (Naudé & Krugell, 2003:6). In this regard, Cotton and Ramachandran (2001) emphasis that not only labour cost is important, productivity and education level are also crucial factors influencing investor

decision-making. It is also important to acknowledge that African countries have already come some way in applying sound practices to make the environment favourable.

Although the success stories are laudable, these FDI flows are only a drop in the ocean, and far less than what is required for Sub-Saharan Africa to obtain sufficiently high economic growth rates to reduce unemployment and poverty. Not enough emphasis from existing researches has been placed on foreign SMEs development as a strategy in itself, to attract FDI. It is necessary to concentrate on attracting foreign SMEs which are more capable of providing more spillovers and improve employment and development on the African continent.

3.5 SOUTH AFRICA'S INVESTMENT CLIMATE

The climate for investment is determined by the interplay of a whole set of factors: political, economic, social, technological, legal and environmental factors (PESTLE) which have a bearing on the operations of a business. Clarke et al. (2007) stated that the investment climate consists of the many location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. These factors include macroeconomic and regulatory policies; the security of property rights and the rule of law; and the quality of supporting institutions such as physical and financial infrastructure. Theories supporting FDI in developing countries argue that the recipient countries need to fulfill some of the basic preconditions in order to create a more conducive business environment. Macroeconomic policy, tax regime and regulatory practices are some of the critical determinants for attracting FDI. Thus the external factors of host countries are important for FDI (Mian and Alam 2006).

According to the World Economic Forum's (WEF) Global Competitiveness report for 2010/11, South Africa's environmental competitive position has dropped further down the order as it is now ranked 54th out of 139 countries as compared to its 45th position in 2009/10. This implies that South Africa's environmental competitiveness has decreased. The Global Competitiveness index is based on 12 pillars of competitiveness, namely: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. The Global Competitiveness report for 2010/11 further noted that the four most problematic factors for doing business in South Africa

are inefficient government bureaucracy, inadequate educated workforce, crime and theft and restrictive labour regulations (WEF, 2010:302).

Nevertheless, South Africa remains the highest ranked country in Sub-Saharan Africa. Its strength is the advanced financial market development and the market size it possesses. This is so as they are ranked 9th and 25th respectively by the Global Competitiveness report (WEF, 2010:302). South Africa also received fair rankings in more complex areas such as the macroeconomic environment (43); goods market efficiency (40), business sophistication (38th) and innovation (44th). On the other hand, South Africa is faced with a number of obstacles to competitiveness such as the labour market which is ranked a low 97th due to its lack of flexibility. This lowly ranked level could also be attributed to the lack of skilled labour and the excess labour disputes and strikes which are not good for FDI flows. In addition, the higher education and training in SA which is ranked at 75 could be at risk as the university enrolment rate is only 15%. The greatest concern, however, remains the health of the workforce and primary education as they are ranked 129th out of 139 countries, due to high rates of communicable diseases and poor health such as HIV (WEF, 2010:302).

The following indicators of the investment climate in South Africa are described as follows:

3.5.1 Economic growth and local market size

South Africa is regarded as the economic powerhouse of Africa, leading the continent in industrial output and mineral production and is one of the largest local markets in Africa. Before the global economic crisis hit South Africa in late 2008, economic growth had been steady and unprecedented. According to Statistics South Africa, GDP rose by 2.7% in 2001, 3.7% in 2002, 3.1% in 2003, 4.9% in 2004, 5% in 2005, 5.4% in 2006, 5.1% in 2007 and 3.1% in 2008. It is therefore important to note that while there have been fluctuations in the growth rate; there has been no decline since 1993. From the first quarter of 1993 to the second quarter of 2008, South Africa has enjoyed an unprecedented 62 quarters of uninterrupted economic growth reaching a historical high of 7.60 percent in December of 1994. This therefore implies that the South African economy was on a path of sustained but moderate growth before it was hit by the global crisis in late 2008. The global crisis caused the GDP to contract in the third and fourth quarters of 2008, officially plunging the economy into recession. This contraction continued into the first

and second quarters of 2009, with GDP growth at -6.4% and -3% respectively (SouthAfrica.info, 2010)

South Africa's economy has been completely revamped since the start of democracy in the country in 1994. Bold macroeconomic reforms have seen the creation of jobs, boosted competitiveness, growth in the economy and the openness of the South African market. (SouthAfrica.info, 2010). South Africa has a two-tiered economy; one rivaling other developed countries and the other with only the most basic infrastructure. It is a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labor between formal and informal sectors and an uneven distribution of wealth and income. The primary sector, based on manufacturing, services, mining, and agriculture, is well developed (Trading Economics, 2010).

2.5.2 Openness to trade

Since the mid-1990s, after the apartheid regime, the value of trade of South Africa has increased as a result of South Africa trading with many countries across the globe. The value of trade in South Africa is now similar to the average performance of middle-income economies. Between 1995 and 1997, the value of trade relative to GDP rose from 45% to almost 60% in 2001-2003. This increase in the value of trade could be attributed to the fact that South Africa has developed new trade and investment linkages with a range of international partners. It even created a trade agreement with EU known as the Trade, Development and Cooperation Agreement (TDCA). The TDCA provide a broad-range framework for economic and development cooperation and the introduction of a Free Trade Area. This therefore could help boost South Africa's external relations as well as promote foreign investments. In addition, the trade agreement encourages EU companies to invest in South Africa through the creation of new opportunities for export-oriented production and through strengthening the climate for private-sector investment. Nonetheless, although some researchers have suggested that TDCA has little impact on investor perceptions of the investment climate in South Africa, it is necessary for South Africa and EU to cooperate on new strategies for informing firms of the potential benefits of the Agreement, especially SMEs who lack resources to monitor regularly new trade and investment opportunities (Leape & Thomas, 2005:1 & 24).

3.5.3 Macroeconomic instability

According to the Investment Climate Survey (2007), macroeconomic instability was identified by investing firms as the second most constraining factor inhibiting them to invest in South Africa even though the growth rate has been positive for over a decade and the inflation has been modest. Exchange rate volatility is considered to be greater in South Africa compared to other emerging economies and this implies a key weakness in the investment environment and thus contributing to the negative perception about the macroeconomic instability. This unstable exchange rate is usually affecting exporters in South Africa especially as many South African manufacturing firms appear to be price takers on international markets as such changes in the exchange rate can have a serious impact on the enterprise revenues (Clarke et al, 2007:11).

To strengthen the resilience of the currency to shocks, it is important to attract long-term forms of foreign investment and increase export capacity. However, there have been recent policy actions such as the strengthening of foreign reserves which should be able to provide the basis for a more macroeconomic stability in the future. This therefore should help reduce the uncertainty facing investors, both foreign and domestic (Thomas and Leape, 2005: iii).

3.5.4 Institutional environment

According to Leape and Thomas (2005:32), South Africa has a reasonably well institutional environment for foreign investment compared to the average for middle-income countries. Leape & Thomas (2005:32) stated that South Africa performs well on the following indicators in the institutional environment:

- The regulatory process for starting a business
- The institutional framework for access to finance
- Investor protection via disclosure requirements
- The framework for enforcing contracts and resolving insolvency

Apart from the fact that South Africa has a broad institutional framework which is favourable, there are concerns with respect to efficiency of government, labour market, crime and corruption. Also, some surveys cited that certain aspects of the BEE requirements have a negative effect on the investment environment of South Africa (Leape and Thomas, 2005:33).

3.5.5 Labour markets

Labour market regulation in South Africa is more rigid than in several competitor economies on both the hiring and firing indices and may be interpreted as an institutional weakness. That is, it is more costly and more difficult to hire and fire workers in South Africa than in most of other competitive economies (Clarke et al, 2007:11). As such it has caused the labour market in South Africa to be less flexible. There is an important tradeoff between flexibility to promote investment and growth and an adequate level of protection for employees and the promotion of broader BEE objectives. Although most foreign investors view the labour market in South Africa to be relatively costly, they are more concerned about the labour productivity and the legislation attached to it (Thomas and Leape, 2005:iii).

There are four pieces of legislations that were passed after apartheid and are essentials in understanding the labour market of South Africa. These laws are the Labor Relations Act (LRA), the Basic Conditions of Employment Act (BCEA), the Equity Employment Act (EEA) and the Skills Development Act (SDA).The Broad-Based Black Economic Empowerment Act (BEE) which is a separate bill has received much attention in the labour market in SA. The Labor Relations Act which was passed in December 1995 was the first of the four legislations passed and remains the most comprehensive piece of labour legislation. It entails employee rights, collective bargaining and union rights, strikes and lockouts, workplace forums, dispute resolution, dismissals, and other general provisions (Labor Relations Act, 1995).

The second piece of legislation is the Basic Conditions of Employment Act of 1997. This act deals with issues such as working time, leave, remuneration, termination, child and forced labor, sectoral determinations, as well as monitoring and enforcement. In the case of a termination, the employee must be notified prior to dismissal. The amount of time before dismissal depends on the employee's tenure with the business. For example, if an employee has been with the business for four weeks or less, one week's notice is required and if an employee has been with the business for greater than four weeks and less than a year, two weeks is required. Also an employee that has been with the business for a year or more, four weeks' notice is required. Severance pay for an employee will equal one week's remuneration for each year of employment (Basic Conditions of Employment Act, 1997).

The third piece of legislation is the Employment Equity Act of 1998. It involves the basic ideas of unfair discrimination and affirmative action policies of South Africa, as well as the institutions that govern these policies. This legislation states that a person may not be unfairly discriminated against on the basis of race, gender, sex pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language and birth. The affirmative action on the other hand requires all designated employers to implement affirmative action measures which include the following; the identification and elimination of employment barriers which can adversely affect designated groups, measures to further diversity, make reasonable accommodations to ensure designated groups have equal opportunities and are equitably represented, and ensure representation of suitably qualified people within all occupational categories, as well as the retention and development of said groups (Employment Equity Act, 1998).

The fourth important piece of the labor legislation in South Africa is the Skills Development Act of 1998. The act is aimed towards improvement of South African labour force skills through a levy-grant scheme. This act involves little regarding labour market rigidities; however, the difficulty in claiming back the levy has led many entrepreneurs to view this program as more of a tax. Another piece of legislation that has a great influence in the South African labour market is the Broad-Based Black Economic Empowerment Act of 2003. This act goes beyond the affirmative action of the EEA, and sets goals of changing the racial composition of ownership and management structures of existing companies and new enterprises. This act only sets the goals and allows for the institutions to carry out the goals. The action to be taken will be decided in a BEE plan and codes of good practice stipulated in the act (Clarke et al., 2007:71).

3.5.6 Worker skills

Worker skills are a growing concern in the investment environment in South Africa. Business managers in RSA suggested that worker skills were a serious obstacle to their business' operation and growth and that they find it difficult to attract skilled workers. One reason why businesses find it difficult to attract skilled workers is that businesses tend to pay high premium for skilled and educated workers. Econometric analysis of individual workers' wages suggests that an additional year of education is associated with an 11 to 12 percent increase in wages in RSA while in developed economies an additional year of education tend to be 5 to 7 percent

increase in wages. As such, it is realized that the wages appear to be relatively higher for managers and skilled workers than for unskilled workers (Clarke et al, 2007:10).

Despite the concerns about worker skills, relatively few enterprises in South Africa provide training programs. In an investment climate survey (ICS) study, it is noted that more than 80% of workers in SA do not receive any formal training (Clarke et al, 2007:10).

3.5.7 Crime

The evidence from the Investment Climate Survey (2007) proposed that crime is also a serious concern for businesses in South Africa. Though the violent crime rates, especially for murder, have declined moderately over the past decade, other crimes like property crimes have been increasing. Some firms detailed that the direct losses due to crime and the cost of security were equal to about 1.1 percent of sales. This is higher than in many emerging economies where the median costs are said to be less than 1 percent of sales in China, Poland, Brazil and even Russia. Also, security costs account for about two-thirds of the cost of crime, while direct losses account for the additional third. In contrast to many emerging economies in Eastern Europe and Asia, protection payments to organized crime were very low (Clarke et al, 2007:12). To add, from the investment climate survey study, it is noted that the burden of crime is not evenly distributed across firms in South Africa. In general, manufacturing firms faced fewer losses than firms involved in retail and wholesale trade or construction. Large firms also tended to face higher losses than smaller firms. After controlling for other factors, firms in Durban faced the heaviest losses, while firms in Johannesburg faced relatively modest losses (Clarke et al., 2007:12).

3.5.8 Access to Finance

The Global Competitiveness report stated that South Africa has one of the best financial markets in the world and its financial systems are well developed compared to both countries elsewhere in Sub-Saharan Africa and other emerging economies (WEF 2010:302). Business owners often see access to finance and the cost of financing as serious obstacles to their enterprises' operations and growth. But in South Africa it is not seen as a serious problem for preventing firms from investing as the cost of finance or interest rate is relatively low compared to other African countries and middle-income countries. However, the most serious issue here is that the access to finance gap between SMES and larger firms are greater in South Africa than in most middle income countries. This is so as in South Africa, it is far easy for large firms to access finance

than SMEs. Likewise, in South Africa, foreign-owned firms find it difficult to access finance than domestically owned firms. Same applies to exporters who see both access and cost of finance as a serious obstacle to their business operation and growth (Clarke et al, 2007:75-78).

The trade credit system is also good in SA as most businesses depend on trade credit to fund their working capital needs. Businesses also sell goods on credit and extend credit to other businesses. The reliance of businesses on trade credit and willingness to extend credit to other firms suggests that businesses are able to enter arms-length deals with other firms and that they believe that they can rely upon formal and informal enforcement mechanisms to ensure payment (Clarke et al., 2007:76).

3.5.9 Infrastructure

The role of infrastructure in promoting FDI covers a wide range of factors, such as the availability, cost and reliability of IT, telecommunications, utilities, and transport linkages. A Business Map survey indicated that the telecommunications and transport infrastructure in South Africa compares favourably with the average for middle-income economies, but are less favourable compared to the top middle-income economies. The Business Map survey also suggested that there are some factors in the transport infrastructure that cause some foreign businesses to see the transport infrastructure in RSA to be slightly unfavourable. The availability and the reliability of the rail and port services are deem by some foreign businesses in South Africa as inefficient and ineffective. Also, there are concerns with respect to the reliability of the electricity supply. However, the quality of IT and telecommunications infrastructure is viewed positively, but dissatisfaction is expressed with high costs. Other aspects of infrastructure such as financial and professional services provide a generally positive contribution to the investment climate thus suggesting that the service sector in South Africa to be developed (Leape and Thomas, 2005:30-33).

3.5.10 HIV/AIDS

The rapid growth of HIV/AIDS victims in SA tends to have a serious constrain on the investment environment as it hampers the labour market. The International Monetary Fund acknowledges HIV/AIDS as one of the main restrictions on the future growth of SA. The high rates of HIV/AIDS have a strong impact on labour productivity and firm investment as the epidemic

creates an uncertainty about the future of productivity, market size growth and profitability in SA (Clarke et al, 2007:13).

3.5.11 Competition

Previous studies pointed out that the South African economy is highly concentrated and that there are high barriers to entry for both domestic and foreign firms. Even though there are high concentrations, firms in South Africa appear to be relatively profitable. (Clarke et al., 2007:14).

From the above points and the statistics from World Economic Forum's (WEF) Global Competitiveness Index, it shows that the investment environment in South Africa is relatively conducive and attractive to FDI compared to other regions in the sub-Sahara Africa. However, this does not mean South Africa's investment environment should be ranked as favourable on the same level as other middle-income countries like the BRIC countries (Brazil, Russia, India and China). Therefore it is important for the government to step up its promotion on the attraction of FDI (right type) so that it can lure the same number of FDI as the BRIC countries.

3.5.12 Effect of Xenophobia on Foreign Businesses in South Africa

Xenophobia is defined as the extreme dislike or fear of foreigners, their customs or their religions. It can mean a fear of or aversion to, not only persons from other countries, but other cultures, subcultures and subsets of belief systems (Harris, 2001:65). In a world where scarcity is increasingly common, xenophobia is clearly not only a local issue, but a global phenomenon. The election violence in Kenya, the looting and arson in Karachi, and the refugee crisis in South Africa all demonstrate the upheaval and cataclysm that can erupt from a struggle over limited resources.

According to Valji (2003:1), the dislike towards non-nationals has increased since the beginning of the South African democracy in 1994. It has a specific character marked by serious forms of violence and aimed at a specific group of foreigners. The transition to a new democracy has brought about not only positive consequences but also problems related to the phenomenon known as xenophobia. Shindondola (2003:3) pointed out that this phenomenon has become dangerous as it has the potential to be socially and politically catastrophic for South Africa's new democracy which focuses on human rights for all.

Xenophobia in South Africa portrays various forms. Some South African citizens are prejudiced towards foreigners but this prejudice remains as thoughts and feelings. Also, the xenophobia in South Africa has resulted in particular name-calling and verbal abuse. A common derogatory term used for refugees by black South Africans is "makwerekwere". This word is meant as an insult and usually followed by being told to go home and that they aren't welcome in South Africa. Many refugees receive constant harassment and insults from various nationals, like shoppers, pedestrians, passengers, neighbours and even work colleagues (Livesey, 2006:48)

In March 2008, they were serious xenophobic violence across South Africa causing the death of some foreigners, thousands had to flee to internal refugee camps, and many more had to return to their home countries. This wave of attacks in South Africa lead to the destruction of many foreign small, micro and medium size enterprises which were owned and controlled by these immigrants (Laher, 2009).

Donnelly (2008:2) suggested that one reason for these attacks could be the lack of service delivery which then stirred up the feelings of discontentment and dispossession by poor South Africans. These poor South Africans then became increasingly hostile and violent toward foreigners instead of directing this frustration at government. For most people, the government is far too distant to be the object of physical aggression, so their anger finds its best outlet in proximity. Clinging to well rehearsed mantras of exclusion – they take our jobs, they take our welfare, they burden our state – communities have chased out their foreign neighbours and friends, creating a context where thousands of Zimbabweans, Congolese, and Somalis have been displaced by horizontal violence. An institute for Security Studies assessed this situation and stated that: "what we have seen is what some have termed a perfect storm- the coming together of pent-up frustration over poor service delivery, lack of leadership and the legacy of apartheid" (Donnelly, 2008:2).

Also, according to Joe Schwenke, managing director of Business Partners, an investment company, suggested that the South Africa's labour law could be reliable for these xenophobic attacks. It has been argued that the rigidity of South Africa's labour law contributes to fewer South Africans being employed legitimately, hence opening the way for foreigners to enter the system and work for lower wages. Schwenke also stressed that these immigrants were not rich

people and simply provided service to the community who could not get goods and services in the area they lived (Donnelly, 2008:2).

The consequences of xenophobia in a country have a negative impact on foreign businesses in the country likewise outward foreign investments. Saki Macozoma mentioned that the violent in South Africa in 2008 did not only affect the foreign businesses in South Africa but also affected South African businesses operating in the continent. For example, the Standard Bank of South Africa had their personnel threatened in Mozambique (Donnelly, 2008:2). This therefore shows how the violence not only affects the foreign businesses in the host country but causes disarray across the African continent.

These attacks too have caused SA's image and reputation to suffer both internationally and on the African continent. The perception is increasingly of an intolerant, uncaring society that is hostile to African immigrants in particular. The looting of foreign-owned businesses in some of the townships has also harmed SA's profile as a business-friendly destination with impeccable record of protecting property rights (Langeni, 2008:15).

Also during the same xenophobic attacks in SA, business communities were growing deeply concerned about the impacts of the violence on the economy as 342 shops belonging to foreign nationals were been looted while 213 were burned down (Donnelly, 2008:2). This calls for concerned as most of these shops were SMMEs businesses and South Africa who are quite aware that they do lack enough SMME businesses and are trying to promote it, were rather losing them.

To sum up, perception is known to drive investment and markets and such xenophobic violence will have a serious impact on some areas of business in the short and medium term. Even though these attacks on foreigners will not single handedly deter foreign investment but will certainly add a new dimension to the list of factors that prevents South Africa of becoming as an excellent FDI destination. Global researches have shown that immigrants are generally beneficial for the economy, despite locals' suspicious and even hostile attitudes. This could be seen about Mexicans in America, Polish in Britain and the Turks in Germany. South Africa must therefore turnaround from this gaping precipice if they want to improve economic development (Naude, 2008:15).

3.6 SUMMARY

This chapter discussed the external environmental factors impacting FDI. Creating an external environment conducive for FDI is of utmost importance in attracting FDIs. External environmental factors such as political, economic, socio-cultural, technology and legal (PESTLE) factors have a huge influence on attracting FDI. Cheap manufacturing costs and an abundance of labour are some of the key drivers for attracting FDI, while an unfavourable political, regulatory and economic environment increase the risk and limit the flow of FDI to a country. It is also important to note that these constraints in the external environment do not only impact on FDI, but also have negative consequences for local businesses. Issues such as crime, corruption, labour regulations and unions, volatility of exchange rate, stability of government and taxes are major contributors to the low levels of entrepreneurial activity. Therefore, the African leaders must realise that they have a serious and pressing obligation to address the problems in their external environment, not only to attract FDI, but to create an environment that is conducive for doing business in Africa.

This chapter also examined the investment climate of South Africa and revealed that there are considerable amounts of external factors in the investment climate that scare away FDI. This is evident as South Africa which has a strong economy, good infrastructure and sound economic policy relative to other African countries, still receives only a small share of global FDI. Therefore, to draw more FDI into South Africa, the government needs to urgently improve the constraints in its external environment. Positive FDI performance is likely to generate more FDI from well-performing foreign firms, and also has an important signalling effect to other foreign investors. This is particularly true with regard to making location decisions as the herd instinct is very strong among foreign investors (Bhardwaj et al., 2007:34).

Apart from Africa improving its investment climate to attract FDI, they too need a varied foreign investment. These include investment in service delivery to enhance living standards, investment in infrastructure to support economic activity, investment in human capital to reduce poverty, investment in private sector development to secure sustainable growth, and investment in reconstruction and rehabilitation to rebuild post-conflict countries (Anyanwu, 2006:68).

The next chapter will present the literature of FDI in Africa and outward FDI from China. The chapter will analyze the global trends of FDI and their impact on economic growth. The chapter will also examine the motives of China's FDI in Africa and South Africa.

CHAPTER FOUR

FDI IN AFRICA AND CHINA'S OUTWARD FDI

4.1 INTRODUCTION

As the world becomes globalised, more businesses and countries are involved in and affected by international global developments. Even the most inward-looking regimes have realized the limitations of their own resources as well as the benefits of opening up their borders (Ghauri and Cateora, 2006:4). Africa is still struggling to open up its borders so that it can accept globalisation. For Africa to boost its levels of growth and reduce poverty effectively, it has to focus on how to mobilize additional resources, both domestically and foreign (Venter and Neuland, 2005: xi).

As the pace of economic change accelerates and the operational time-span in all fields of activity shortened as a result of international global developments, foreign investments now take different dimensions and methods of operation. In this chapter, the researcher will discuss the global trends of FDI, the impact of FDI on economic growth, and FDI in Africa and South Africa. The researcher will further converse the outward FDI from China and will also discuss what motivated Chinese outward FDI to invest in Africa and South Africa. Finally, the trade relationship between China and South Africa will be mentioned.

4.2 FDI TREND AND GLOBALISATION

FDI has conventionally been regarded as a substitute or alternative to trade. The growth in FDI far outpaces growth in exports. The volume of FDI for all industries increased fivefold from 1981 to 1996, whereas trade volume tripled during this time. The rapid increase in FDI flows is due to deregulation, privatization and trade policy reforms that many countries have pursued since the early 1990s. Rama (2005:150-151) asserts that the increasing flow of FDI is not evenly distributed around the world as most FDI flows in the world both originate from and destined for developed countries, with the bulk of global FDI (77% in 2002) going to high-income countries of the world. As Dobson and Hufbauer (2001:33) put it, "the vast bulk of FDI represents investment made by one rich country in another rich country". The gap between FDI bound for developed countries versus FDI bound for less-developed countries widened throughout the 1980s and 1990s (Rama, 2005:150-151).

Since the early 1990s, FDI has emerged as the most important foreign resource flow for the developing world as a whole, surpassing foreign aid or official development assistance (ODA) by increasing amounts. While there was a downward trend in FDI in 2008 and 2009, the long-term growth and volume of these flows has been remarkable, inspiring much comment on the possibility of private capital replacing aid (Goldin and Reinert, 2006:37).

In the 19th century during the colonial and neo-colonial period, FDI in the developing countries concentrated in exploiting mineral, agricultural products and public utilities. However, there were political and economic opportunities to foreign investors in the colonial countries. Between the 1920s and 1930s, FDI trends were generally at a low level or non-existent in some countries such as Japan where foreign investors were not allowed or welcomed. Also, in Canada and Australia there were growing opposition to investment from abroad. The same was true in Europe in the 1950s when American inflows were at their peak and European outflow were still negligible (Kamath, 2008:16-17).

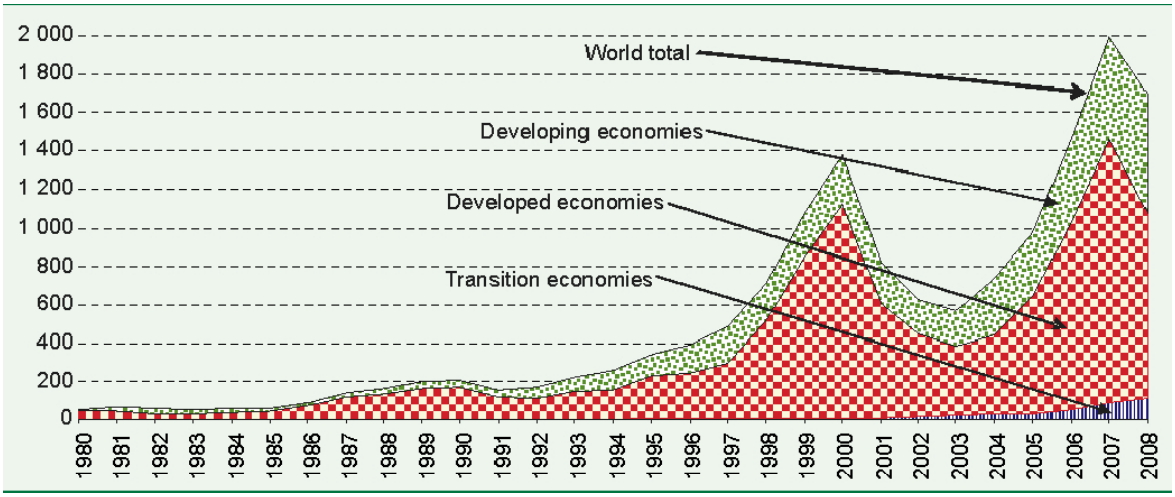
In the 1950s, after the end of World War II, FDI from the industrialised countries to developing countries began to flow again. By the end of 1960s, average annual flows to developing countries, including reinvested earnings were US$3billion. By 1975, the rate of investment accelerated and reached US$10billion (Kamath, 2008:17). FDI inflows more than doubled in nominal terms between 1975 and 1985, attaining a peak in 1981 (US$59billion in 1982) and rising thereafter at an annual average rate of 43% to about US$215billion in 1990 (Bhalla, 1994).

Global inward FDI flows also rose from US$215billion in 1990 to a high of US$1,393billion in 2000. On an annual average basis, FDI inflows increased from 23.6% in the period 1986-1990 to 40.1% over the period 1996-2000. However, global FDI flows decreased sharply by over 40% in 2001 and decreased by another 21% in 2002 to US$651 billion. The decline in global FDI flows in 2001–2002 was attributed to a combination of macroeconomic factors (weak economic growth or slump in economic activity linked to the business cycles in many parts of the world, especially the developed countries, and tumbling stock markets), microeconomic factors (low corporate profits, financial restructuring) and institutional factors (winding down of privatization, loss of confidence in the wake of corporate scandals and the demise of some large corporations) (Anyanwu, 2006).

After reaching another record high of US$2 trillion in 2007, the global FDI decreased to US$1.7 trillion in 2008. This decrease was because of the economic and financial crisis in 2008. FDI flows in 2008 to developed economies fell by 29% (to US$962 billion) while in the developing economies it rose by 17% to US$621 billion and transition economies posted a new record high, with inflows reaching US$114 billion, a 26% increase (World Investment Report, 2009:3).

Figure 4.1: The trend of global FDI flow from 1990 to 2008

(US$billions)



Source: World Investment Report (WIR), 2009:3

The recent global economic and financial crisis that started in 2008, took a toll on inflows of foreign direct investment (FDI) in 2009, which plunged 39 per cent over the previous year. FDI are expected to recover moderately in 2010, amid slow and unsteady recovery in the global economy. From 2008 to 2009, there was a decrease in global flow of FDI from US$1.7 trillion to US$1 trillion respectively (UNCTAD, 2010).

Also, as a result of the global economic and financial crisis in 2008, there was an estimated 41% decline in FDI flows in 2009 to developed countries compared to the previous year. The United States, the United Kingdom, Spain, France, and Sweden experienced a sharp decrease in FDI inflows in 2009. The decrease in inflows in the United States indicate that there were reductions in both number and size - of mergers and acquisitions (M&A) transactions made by foreign companies from major home countries, as they themselves were experiencing the cost of the

economic slowdown. The fall in FDI flows in many countries in the European Union could be attributed to the fact that there were combinations of falling profits which pushed reinvested earnings downwards and reduce the re-channeling of loans from foreign affiliates back to their headquarters (WIR, 2009).

As the effect of the global financial crisis on FDI unfolded insistently, inflows to developing countries declined by 35 per cent in 2009, after six years of uninterrupted growth. After FDI inflows peaked in 2008 in Africa, Africa has suffered from roughly 36% decrease in FDI inflows in 2009. This decline is a problem as FDI inflows in Africa are a major contributor to Africa's capital formation. In fact, in 2008 the share of FDI flows in gross fixed capital formation was as high as 29%. FDI flows to the 33 least developed countries (LDCs) in Africa suffered a major decrease in 2009 due to a crisis-induced lull in the global demand for commodities, which is the main driver for FDI in these economies. The value of the global cross-border M&A which is being regarded as an increasingly important mode of FDI entry in developing countries has diminished as a result of shrinking corporate profits and plummeting stock prices. All these therefore contribute to the low FDI inflows in Africa in 2009 (WIR, 2009).

In South, East and South-East Asia, the upward trend of FDI flow that lasted for six years also came to an end, as the region experienced its worst downturn since the Asian crisis of the late 1990s. This downturn has caused FDI flows to decline by 32% from 2008 to reach US$203 billion in 2009. The falling external demand for Chinese and Indian made goods and services has caused foreign companies to cut back on their investment plans in these two large economies. The severity of FDI decline across the South-East Asian region varies by country depending on the structure of their economies, the effectiveness of policy responses to the crisis, and the strength of the subsequent economic recovery. However, as the region leads the rebound in global consumer and business confidence, FDI stopped declining in a number of countries, such as China, in the latter half of 2009 (WIR, 2010).

In Latin America and the Caribbean, there was almost a 41% decrease (to US$86billion) of FDI inflows in 2009. South America, Central America and the Caribbean combined experienced a sharp decrease in FDI flows during the year 2009. Brazil which is the sub-region's top FDI destination registered a 49% decrease of FDI inflow to US$23 billion in 2009. Mexico which is the sub-region's second largest recipient, recorded a 41 per cent plunge to US$13 billion.

Furthermore, the FDI flows to the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) slumped by 39 per cent during 2009. The major factors that contributed to this FDI slump in the South-East European countries are the economic and financial crisis, coupled with the near-exhaustion of major privatisation opportunities and the structural weakness of their economies. For the Commonwealth of Independent States, the decline in FDI flows could be attributed to the combination of a significant slowdown in economic growth and deterioration in demand for, and the price of, major export commodities (WIR, 2009).

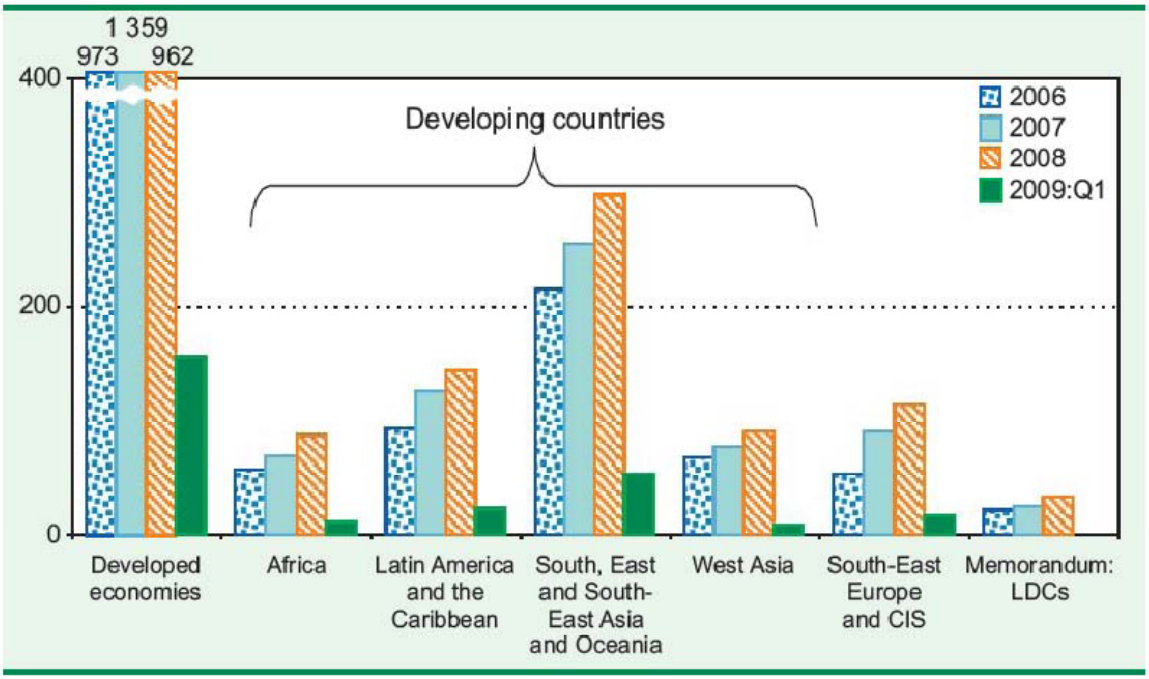
The United States of America is the largest recipient of FDI, followed by France; China is firmly established in third place. China is now easily the largest recipient of FDI in the developing world with inflows of US$110billion in 2008 (WIR, 2009:5). Most of the investments in Africa have gone into the extractive industry- mining and oil; the investments into Asia have gone into manufacturing, services and finance. Investment into Latin America and the Caribbean, traditionally concentrated on natural resources as in Africa, has also undergone a subtle change with more FDI now being directed into manufacturing and services than into commodities (Versi, 2005:1).

The diagram below shows the record level flow of FDI to all developing regions in 2008.

- Africa: US$88 billion, 27% increase;
- Latin America and Caribbean: US$144 billion, 13% increase;
- East Asia, South Asia, and South-East Asia: US$298 billion, 17% increase;
- West Asia: US$90 billion, 16% increase, and
- Least developed countries: US$33 billion (WIR, 2009:6).

Figure 4.2: FDI inflows, by groups of economies, 2006-2009:Q1

(US$ billions)



Source: WIR, 2009:6

Preliminary data for 2009 suggest that global FDI inflows have nosedived across all regions. Compared with the same quarter of 2008, FDI inflows fell during the 1st quarter of 2009 by 46% in developed countries, 39% in developing countries, 46% in transition economies (WIR, 2009:7).

As the financial and economic crisis continues to spread across the world, Africa saw a fall in inflows in 2009 after six years of uninterrupted growth, with the FDI flow reaching a high in 2008 (UNCTAD, 2009). The World Investment Report 2009, reveals that FDI inflows to Africa reached a record high of US$88 billion (R655 billion) in 2008. However, based on preliminary data, in the first quarter of 2009 they plummeted by roughly 67 percent year-on-year. FDI flows to the continent continued to be highly concentrated in only a few countries during 2008 (UNCTAD, 2009), marked by particularly strong growth in flows to West Africa. Countries such as Ghana and Guinea saw their annual inflows more than double to well above US$1 billion each. In Southern Africa, the increase in inward FDI was almost entirely due to the strong

performance of Angola and South Africa. Central Africa and East Africa also posted growth in inflows, but at a much slower pace. Backing this upward trend, in North Africa there were declines in inflows to Egypt (even after the US$15 billion purchase of OCI Cement Group by Lafarge SA), the Libyan Arab Jamahiriya and Morocco (UNCTAD, 2009).

The UNCTAD's World Investment Prospects Survey 2009-2011 indicates that, compared to the previous year's survey, transnational corporations (TNCs) all over the world are planning an increase in both the number and value of investments in Africa by 2011 (WIR, 2009). The report found that global FDI inflows continue to slide in 2009 and significant recovery is expected only in 2011. It estimates that FDI inflows will fall from about US$1.7 trillion in 2008 to below US$1.2 trillion in 2009. Recovery is expected to be slow in 2010, reaching not more than US$1.4 trillion, but gathering momentum in 2011 to approach US$1.8 trillion (Business Report, 2009).

The pattern of the trend of FDI flow in this last century has been up and down in the form of a curve. It shows that it has hit its high and lows of global FDI flows. The pattern of this FDI trend also indicate that the global economic situation (be it the trade barriers or monetary policies or political reasons) is directly proportional to the global FDI flows. Thus, when the global economic situation is good, especially in the developed countries, there is a high possibility of increase in FDI flows (WIR, 2010).

More so, the trend of the FDI flows in the last 5 years have been tilting towards the developing countries and away from the developed world, with China being the most favoured destination among the developing countries. Likewise, the investment targets in the developing countries are gradually changing from primary agriculture and natural resource exploitation to manufacturing and services. For example, the foreign investments in Standard bank and ABSA bank in South Africa by the Chinese banking corporation and the Barclays group respectively. This therefore presents an opportunity for Africa to grow and develop like the developed countries and eradicate the notion of being a poor continent (Versi, 2005:1).

4.3 FDI AND THE ECONOMIC GROWTH

The principal mechanism linking national economies in order to create an international economy is trade. A similar mechanism linking national economies is foreign direct investment. The trade effects of FDI depend on whether it is undertaken to gain access to natural resources, to

consumer markets or whether the FDI is aimed at exploiting location comparative advantage or other strategic assets such as research and development capabilities. Most developing countries lack technology capability and FDI could facilitate technology transfer and reduce the technology gap (TGAP) between developing countries and developed countries. In fact, spillovers or the external effects from FDI are the most significant channels for the dissemination of modern technology (Kok & Ersoy, 2009:105-106).

Wijeweera, Villano and Doller (2010:143) supported the above facts by suggesting that advanced technology that accompany foreign capital investment are the most enhancing characteristics of FDI. Also, Wijeweera, Villano and Doller (2010:143) pointed out that foreign capital via FDI can narrow the saving gaps i.e. the gap between the domestic savings ratio and the required level of investment ratio. This implies FDI will exert a positive on economic growth and will be particularly good for developing countries which suffer from low productivity and low domestic savings.

Foreign direct investment inflows contribute to economic development as it accelerates growth and economic transformation through the provision of private external finance (Kyaw, 2003). According to De Mello (1999), FDI contribution to economic growth depends primarily on the host country characteristics, especially the quantum of skilled labour. Borensztein *et al.* (1998) also established that although FDI has a positive impact on GDP, the magnitude of this effect depends on the level of human capital. AEO (2008) argue that some empirical studies have provided mixed evidence on the link between economic growth and FDI. For example, some studies emphasis that the relationship between FDI and the economic growth rate is critically important for policy making in the real-world. This is true as between the 1970s and 1980s; the economic growth in Africa was slow and was largely constrained by internal factors and economic policies. However, the past two decades have witnessed a continuous increase in economic growth as a result of African countries trying to improve their investment environment to attract more FDI or due to the presences of more FDI (AEO, 2008).

South Africa together with the rest of Africa faces the daunting challenge of meeting the Millennium Development Goals (MDGs) over the next 5 years. It is accepted that if the MDGs are to be achieved by 2015, rapid progress will be required in the areas of trade, good governance and resource mobilization. In terms of mobilizing the financial resources required to

meet the costs of achieving the MDGs at the global level, Vandemoortele and Roy (2004) estimated the financial resources to be between US$30billion to over US$100billion in additional resources per year. However, with the current inadequate levels of domestic savings to finance domestic investment and the sluggish performance of official flows over the last decade and a half, foreign private capital inflows, especially foreign direct investment (FDI) offer an attractive source of debt free financial resources to African countries. These debt free financial resources would be very essential for the African countries to achieve their MDGs (Mlambo, 2005:553).

The present economic crisis has not help the Africa continent for FDI to have a positive impact on the economic growth in Africa. This is seen as FDI inflows fall roughly to 36% in 2009 after it peaked in 2008. The drop of FDI inflow in Africa and drop of oil and mineral prices in Africa will greatly cause the economic growth in Africa to slowdown. This could be a blessing rather than a curse as it provides the opportunity for African governments to look into the kind and form of FDI they attract in to the continent. Hence, if they attract Greenfield investment or export-oriented FDI which are willing to manufactured goods here and export, then such FDI will have more positive impact on the continent's economic growth.

Also, even though Africa has attracted some foreign investments, they have failed to attract the kind of FDI that will bring development like the ones that have improve development in South Asia and Latin America. This lack of attracting the right kind of FDI could be attributed to Africa's poor infrastructure, underdeveloped human resources, unsustainable markets and economic and political elite that are continuously not performing well. Because of these obstacles in Africa, it becomes difficult to apply the same description used a couple of decades back by any of the middle-income countries in Asia (Versi, 2005:3).

Similarly, FDI have great positive impact on the economic growth in developed countries compared to developing countries despite developing countries receiving a record flow of FDI of US$88billion in 2008, a 27% increase from the previous years. FDI contributes very little to developing countries development, most especially in Africa because 95% of the inflows in Africa are large enterprises (MNEs) which have very little spill over in the economy. Also these FDI in Africa contribute less to economic growth because they mostly target natural resources as they simply come with experts and explore the natural resources and take them to their country of origin (Scott-Kennel, 2007:52).

4.4 FDI in Africa

The developing world continues to receive a minuscule proportion of global FDI flows. In 2001, for example, developing countries received a paltry US$205bn in FDI, or less than 5 percent of the global FDI, with China alone accounting for more than a quarter of the developing world's FDI flows. In other words, it is difficult to conceive of FDI as a major future source of financial resource for developing countries and emerging markets, with the possible exception of large countries like Russia and India. The importance of FDI, however, stems from the proposition that MNCs are instrumental in transferring technology from developed to developing countries (Bhaumik and Gelb, 2005:6).

Africa has never been a major recipient of FDI flows and so lags behind other regions of the world. On an annual average basis, the region's share of global FDI inflows was 1.8 percent in the period 1986–90 and 0.8 percent in the period 1999–2000. A slight improvement was observed in 2001 when inflows to the region rose from US$9bn in 2000 to US$19bn in 2001, increasing the region's share of global FDI to over 2.3 percent. However, that increase was largely due to a substantial increase in FDI flows to South Africa and Morocco. South Africa and Morocco received more than 50 percent of the total FDI flows to Africa. For South Africa, the rise was due to the unbundling of cross-share holdings of companies listed on the London and Johannesburg stock exchanges. In the case of Morocco, the huge increase in 2001 is due to the sale of a 35 percent stake in the local telecommunication operator, Maroc-Telecom, to France's Vivendi Universal. Unfortunately, in 2002 FDI inflows to Africa declined by 41 percent, with such declines occurring in 23 countries of the Continent (UNCTAD, 2003). The downturn from US$19.6bn in 2001 to US$11.8bn in 2002 occurred at a time of worldwide slumps in FDI flows before it reached US$15bn in 2003. The 2003 increase was driven mainly by natural resources, and spread more evenly among countries as well as industries than the previous increase in 2001 (UNCTAD, 2004).

Although the African region is known as the least region attracting FDI flows, the last decade has seen several countries such as Botswana, Mauritius, Mozambique, Uganda, Lesotho, Namibia and Swaziland up their chase for FDI inflows. This increase in FDI flows in these countries could be as a result of their effort to promote political and macroeconomic stability and implement structural reforms. Also, apart from these countries implementing strong leadership,

promoting democracy and adopting sound fiscal and monetary policies as well as exchange rate policies, these countries have adopted a framework of investor friendly policies through negotiating various bilateral and multilateral investment and trade treaties, thus acting as an incentives for multinational firms to locate their affiliates there. Such incentives have included privatization, trade liberalization, and investment in human capital. In Mauritius, for example, the creation of export processing zones (EPZ) and the provision of specific tax incentives to investors have yielded positive investment results. To add, the privatization of state-owned enterprises has provided a number of African countries another channel to attract FDI. This is evidenced in South Africa, Ghana, Nigeria, Zambia, and Ivory Coast (Anyanwu, 2006*)*.

One major concern regarding FDI inflows to Africa is that the overwhelming majority of the flows go into natural resources exploitation. This is true as the top recipient countries in Africa such as Angola, Algeria, Sudan, Nigeria and Gabon, have most of their FDI flows into oil and gas projects. Likewise, over 50 percent of the flows to South Africa and Tanzania are into gold mining. Indeed, the primary sector was the largest recipient of accumulated FDI outflows to Africa, with a 55 percent share for the period 1996 to 2000. Service industries have become more important in recent years, with a 25 percent share (Anyanwu, 2006:54).

4.5 FDI in South Africa (SA)

The Government of South Africa has put in place some policies to attract foreign direct investment. One of the policies is that the government does not require approval for investment, and foreign investors in most cases are subject to the same laws as domestic investors. Non-residents may invest directly through a resident company, branch or partnership. The 1973 Companies Act permits the establishment of a private or public limited-liability company. Most foreign firms setting up South African subsidiaries have used the private form. The Close Corporation Act of 1984 (Act 69) created a third legal form for corporations, which is well suited to small businesses (UNCTAD, 2006).

In addition, the rights of foreign owners are not legally restricted, except in banking, and there is no overall limit on the amount of foreign ownership. Moreover, the government's privatization programme shows a clear move away from the past protectionist policies. Foreigners are free to acquire freehold title to land anywhere in SA. Certain industrial sites offer land for long-term lease only. In many parts of the country, land rights are separated from mineral rights. Mineral

rights are public documents in local registries and are the focus of a new policy that calls for the transferring of ownership of all domestic mineral rights to the state. Such policy will hinder foreign investors to investment in the mineral sectors (UNCTAD, 2006).

However, the bulk of the foreign direct investment in South Africa (SA) has been natural resource-seeking and market-seeking, with them dominating the SA's economy as they possess the superior technology, business knowledge and financial strength. The dominance of these MNEs (FDI) have adverse effects on employment, income distribution, national sovereignty and autonomy (Musila and Sigue, 2006: 577).

Notwithstanding, there has been a gradual increase in foreign investment in basic industries. Since 2000, there has been an increase in investment in the production of steel and other metals, and in the paper industry. Although some sectors have not shown a sustained increase in levels of foreign investment, large investments have been observed across a diverse set of industries over time. It is therefore important for the South African government to further their efforts to promote more opportunities for foreign investments in more diverse sectors. Doing this could attract more foreign SMEs into key industrial areas (Leape and Lynne, 2005).

South Africa is maintaining a good performance in world rankings, with a number of recent international reports supporting the country's strengths as an investment destination. Despite some local skepticism - brought on in part by political uncertainty in the lead-up to the 2009 elections - overseas business analysts are still optimistic about South Africa, rating it as less risky and more rewarding for investment than most other African countries. South Africa is ranked sixth as a first-time investment destination among developing country investors in a survey by a global management consulting firm AT Kearney (Taylor, 2010).

According to the survey, emerging markets registered the strongest investor optimism in 2007, with 15 of the 25 most attractive FDI destinations being developing markets. The assessment of senior executive sentiment at the world's largest companies found corporate investors optimistic about the prospects for developing nations and increasingly targeting them for more corporate investment in the years ahead. While China and India remain the top destinations for first-time investments overall, developing country investors are more bullish about new markets, such as Vietnam, Brazil and South Africa. According to AT Kearney, South Africa's FDI inflows were

expected to rebound to an estimated US$5bn in 2007, with European Union firms remaining the largest investors in the country (Taylor, 2010).

There are a good number of FDI in South Africa, especially MNEs, but not much when compared to the amounts in the BRIC countries. One of the largest foreign investments in SA came from China which also happens to be the biggest Chinese financial acquisition as of 2007. This Chinese investment was carried out by the Industrial and Commercial Bank of China (ICBC) in 2007 when it purchased a 20% stake in South Africa's Standard Bank. The US$5.5billion (R36.7billion) stake in Standard Bank, the bank with the largest presence in Africa is the largest inward investment in South Africa. This therefore goes to show the growing relationship between China and the development of the African continent. It further consolidates the unique strategic relationship between China and South Africa, its major partner on the African continent. This also marks the moment for South Africa to look at new "BRIC" global economic powers as the source for foreign direct investment after fallen short of expectations in the case of traditional trading partners like Britain, France, the United States and Japan (Battersby, 2007).

According to a study by Gelb and Black (2004) about the forms of entry of FDI in South Africa, they realized that 45% of the FDI in SA take the form of acquisition (full or partial acquisition) as opposed to Greenfield or joint venture forms of entry. In an associated study, Estrin and Meyer (2004) reported that the share of acquisitions in South Africa is higher than in comparator countries where similar surveys have been conducted: 17 percent in Egypt, 13 percent in Vietnam, and 10 percent in India. Estrin and Meyer (2004), further suggested that most FDI in SA take the form of acquisition as an entry mode because of a good network of existing domestic firms and a developed capital market that facilitate entry by acquisition.

4.6 China's Outward FDI

There is a substantial body of literature on the prominence of China as a recipient of FDI and its consequences for national economic development and management practice (Branstetter and Lardy, 2006). Nonetheless, less attention has been paid to China's position as a FDI source given that China attracted an annual average FDI inflow of around US$29billion (more than 7% of the world's total) in 1990, but contributed less than US$2.5billion, about 0.6% of the global outflows (UNCTAD, 2006). However, the sharp growth in Chinese outward direct Investment (ODI) since

2002, combined with a number of high profile acquisition of North American and European firms, have brought relief to China's rising status and potential as an investor nation. A UNCTAD survey of investment promotion agencies predicted that the annual flows of Chinese ODI are likely to reach US$60billion by 2010 (MOFCOM, 2006).

The rapid growth of China outward FDI is seen now because prior to 1999, the Chinese government established policies and regulations to prevent the outward flows of direct investments as it was seen as a substitute for domestic investment and detrimental to national development (Sauvant, 2005). Also, during this same period, most of the outward FDI were carried out by state owned enterprises (SOE), which were monitored and closely controlled by the government (Buckley et al, 2008). So the Chinese government was the constraint and determinant of outward FDI.

It was therefore only after 2001, the "go global" policy was rightly implemented as policies towards ODI were been liberalised (mainly through the easing of investment restrictions, simplification of approval procedures and relaxation of foreign exchange controls) and with indirect, "hands-off" economic policies increasingly substituted for direct, "hands-on management" (Buckley et al, 2008). It is as a result of this transformation of the Chinese ODI policy over the years that there is now a continuous increase of Chinese ODI in the post 2001 period after the "go-global" initiative was implemented.

The majority of Chinese ODI has been in the natural resource-seeking sector especially with the massive investment it has in Africa. This can be confirmed as backward integration to acquire or secure the supply of specific location-bound resource and commodities abroad for domestic consumption. This has been the predominant driver of Chinese outward FDI since the late 1970s (Taylor, 2002). More recently, China's rapid economic growth over the past decade has fuelled what some say is an almost insatiable demand for raw materials (Economist, 2004). Hence, prompting others to describe them as "the new resource colonialist in Africa," as they heavily invest in natural resources in Africa (Amos, 2009:33). These Chinese MNEs are easily granted access to market or easy exploitation and extraction rights because they provide the African countries with official development aid programs and cheap loans with no conditions attached. Examples of these developmental aid programs include: telecommunication, infrastructure, transportation, education and inter-governmental loans (Pan, 2006; Evans and Downs, 2006).

Chinese businesses also carryout ODI in the form of market seeking as they conduct both defensive and offensive market seeking FDI. Chinese enterprises have long established overseas operations to facilitate trade. Certainly, in the early 1990s, the bulk of Chinese ODIs were in the service sector as export trade related. Though they were confronted with a range of tariff and non-tariff trade barriers abroad, China acceptance in the world trade organisation has helped reduced those tariff barriers but has also been dealt a big blow as their surplus trade dropped with the implementation of the protectionist measures. For example, the Chinese exporters to the USA used to enjoy large trade surplus but with the imposition of the protectionist measures, their growth in ODI to the USA dropped significantly (Taylor, 2002).

This protectionist measures pressurised Chinese exporters to carry out the defensive market-seeking approach. This approach is seen as Chinese enterprises increasingly start to locate their manufacturing plants "offshore" to those countries with which the industrialised nations set few or no export quotas (Lau, 2002; Taylor, 2002). This has lead to an increase in market-seeking ODI by Chinese firms in a number of countries like Cambodia (where the Chinese garment manufacturers in particular enjoy fewer quotas restrictions in the third markets), Mauritius (where export quota restriction are mostly absent), Jamaica and Fiji (UNCTAD, 2003).

Another aspect to defensive market-seeking FDI by Chinese firms is their response to factors that combine in limited growth opportunities at home (Beede, 2006). Firstly, China is obligated under its WTO accession terms to further open domestic markets to both imports and FDI. This has inevitably increased competitive pressures in home markets (Taylor, 2002). Secondly, supply chain bottleneck, restricted demand and fragmented national markets are now a common place in certain sectors in China (e.g. domestic appliances and machinery, and in textiles, clothing and footwear) and this has led to excess capacity. Thirdly, it was often easier for Chinese enterprises to develop foreign markets than domestic ones, especially for those located in the coastal provinces close to international transportation networks as foreign markets had greater regulatory transparency and superior distribution networks (Buckley et al., 2008:737).

Chinese enterprises are also investing abroad for offensive market seeking purposes. They use this offensive market seeking when they want to develop new markets and raise brand awareness as there are growing numbers of Chinese enterprises with competitive advantages capable of competing more effectively in the international markets (UNCTAD, 2003). They see this

international expansion as a proactive step, with new markets being developed overseas because of attractive demand conditions. Apart from many Chinese companies competing by selling simple, undifferentiated and mature products in low-income countries, others are increasingly able to compete in more technology-intensive sectors in both developing and developed countries by undertaking large scale, capital-intensive and market seeking investments.

Moreover, offensive market-seeking FDI could be view as a response of Chinese firms to deepen regional economic integration in some parts of the world, for example, some Chinese investments in Mexico were made in order to benefit from preferential treatment given by the USA to Mexican imports under the terms of the North American Free Trade Association (NAFTA). Similarly, a proportion of Chinese FDI bound for Cambodia and Vietnam was stimulated by the prospect of improved access to south East Asian markets as a consequence of the ASEAN Free Trade Agreement and the Asian Investment Area. However, regional economic integration and large markets may be present but are not sufficient conditions for offensive market-seeking FDI by Chinese MNEs as there have been relatively modest amounts of Chinese ODI in Europe (Buckley et al., 2008:738).

Outward FDI from China is also influence by the fact that Chinese enterprises are in a variety of foreign-owned assets, both tangible and intangible. In the past, China outward FDI was an on-going quest for market information to improve domestic export performance. Nevertheless, they are now more interested in tapping foreign knowledge of technology-intensive production and local markets (UNCTAD, 2003). To this end, Chinese enterprises are now establishing research-oriented affiliates in high-income countries to assist in the development of high technology and knowledge intensive products to be manufactured in China and exported via sales affiliates. In some places, like the USA and UK, this process is supported by home country efforts to attract this type of investment (Sauvant, 2005), especially in sectors that do not challenge the local manufacturing base.

Furthermore, Chinese businesses may carryout outward FDI in order to extend their key brands and trade names into foreign markets and to improved access to capital markets. This can be exemplified as in the early 1990s; a few Chinese enterprises acquired weak corporations in Hong Kong, transforming themselves into MNEs over night. These MNEs are then used to obtain listings on the Hong Kong stock exchange and when the capital is secured it is redirected to

China to fund domestic enterprises (Liu and Li, 2002). Tax-havens such as the British Virgin Islands, the Cayman Islands and Bermuda have also been used by Chinese MNEs to obtain Venture Capital (Frost, 2005), to channel funds back to mainland China (and thus benefit from foreign invested enterprise status) and to circumvent restrictive outward investment approval procedures (Voss, 2007).

To sum up, Chinese ODI are distributed more widely to encompass a large number of developing host countries (notably Africa and Southeast Asia) in addition to the industrialised countries, which historically or prior to 1999 have been important destinations (with the exception of Western Europe). This could be supported by the fact that nowadays, there is a gradual disengagement of the Chinese government from the direct regulation and control of ODI, thus leading to lots of Chinese ODI all over the world. The desire to improve the supply of natural resources to China's growing economy and to develop overseas market opportunities remains to be an important driver. However, the Chinese ODI strategies appear to be shifting away from a mere support of trade function and foreign market information gathering to a market seeking FDI that is both defensive (i.e. in response to competitive pressures and weak market access at home) and offensive (i.e. that seeks to improve foreign market access through the establishment of sales and manufacturing subsidiaries) in orientation. Chinese enterprises now attempt to raise their competitiveness by undertaking strategic asset seeking FDI. This is sometimes done by purchasing underperforming foreign businesses in order to take advantage of hard-to-replicate assets such as advanced technology and established foreign brands and to improve access to distribution channels and sources of foreign capital (Buckley et al., 2008:740).

4.6.1 China FDI in Africa

Trade relationships between China and Africa go back as far as the 10th century. Keenan (2009:92) stated that China began to establish relations with African states in 1956, and today has relations with 48 of 53 African states. However, the bases of Beijing's approach to Africa have shifted over the years, and today the relationship is friendly and driven by mutual economic and strategic needs.

Even though China had started trade with Africa a long time ago, still, most foreign direct investment (FDI) inflows to Africa come from Europe, along with South Africa and the United States of America. These countries together account for more than half of Africa's FDI inflows.

China's investment in Africa has been growing swiftly over the last decade, increasing from about US$49m in 1990 to about US$600m in 2003. With US$57bn being the global flow from China in 2005, US$1.6bn of that global flow represented the amount invested in Africa. Between 1979 and 2000, China's FDI in Africa was distributed in the subsequent industrial sectors: 46 percent in manufacturing (15 percent to textiles alone), 28 percent to resource extraction, 18 percent to services (mostly construction) and 7 percent to agriculture. This shows how the Chinese investors are willing to investment in the various industrial sectors in Africa. Also, the investments that Chinese firms have realized in Africa is increasing so quickly that it is thought to have reached US$11.7bn by the end of 2006 and includes manufacturing, trade, transportation and agriculture. China is likely to be the main source of FDI for Africa, especially as the Chinese government entities offer tax incentives, loans, credit and ready access to foreign exchange for enterprises that undertake FDI activities abroad (Sautman and Hairong, 2008).

In November 2006, heads of state and foreign ministers from 48 African countries gathered in China for a two-day summit on trade and investment. At the end of the summit, Chinese President Hu Jintao promised that his country would double aid to Africa by 2009 and would make available at least US$5bn in loans and credits. The China-Africa summit was only one of a series of steps that China has taken to increase its investments and influence in Africa. Trade between China and countries in Africa increased from US$10bn in 2000 to approximately US$55bn in 2006. By the start of 2006, Chinese companies had opened 750 businesses in Africa worth at least US$1bn. Although Beijing's investments have mostly been in service of its search for raw materials to fuel its booming economy, it has also invested in telecommunications, infrastructure projects like roads and bridges, and is even building a new conference hall for the Africa Union (Keenan, 2009: 91).

Eighty-five percent of Africa's exports to China come from five oil-rich countries (Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan), according to the World Bank. But Chinese interest in Africa extends beyond oil. China now ranks as the continent's second-highest trading partner, behind the United States, and ahead of France and Britain. From 2002 to 2003, trade between China and Africa doubled to US$18.5bn; by 2007, it had reached US$73bn. Much of the growth was due to increased Chinese import of oil from Sudan and other African nations. Still Chinese firms also import a significant amount of non-oil commodities such as

timber, copper, and diamonds. China recently began to import some African-manufactured value-added goods, such as processed foods and household consumer goods (Hanson, 2008).

Chinese companies too, on the other hand see Africa as both an excellent market for their low-cost consumer goods, and a burgeoning economic opportunity as more African countries privatize their industries and open their economies to foreign investment. Some Chinese textile manufacturers, for example, are reportedly investing in African factories as a way to get around US and European quotas on Chinese textiles. Although it is noticed that there is a massive growth of China's foreign direct investment (FDI) in Africa, its investment in Africa represents only 3 percent of China's total FDI (UNCTAD, 2007).

Battersby (2007) pointed out that China has in the past decade or so become the fastest growing investor in African infrastructure, one of the major sources of soft loans to African states, one of the largest consumers of African oil and steel and the largest exporter of cheap manufactured goods to the continent. Bilateral trade between China and African nations has increased a staggering tenfold to US$55.5bn (R350bn) in less than a decade. Also, from 2000 to 2006, China pumped a total of US$6.6bn (R43bn) in foreign direct investment into Africa. China's state financial institutions such as the Chinese Export-Import Bank are advancing soft loans to develop infrastructures in Nigeria, Angola, Ethiopia and the Democratic Republic of Congo (DRC) (Battersby, 2007).

Moreover, China's strategic approach in building a long-term relationship with Africa to serve its own economic interests has opened up opportunities for African countries which were unthinkable even a decade back. The Chinese approach of doing business without preconditions based on human rights and good governance has presented the continent's traditional trading partners and multilateral bodies such as the World Bank a major challenge (Battersby, 2007).

In addition, concerns about China's role in Africa have been voiced by a range of actors; from human rights groups to international observers to Africans themselves. Many Africans are concerned about how China operates in Africa, accusing Chinese companies of underbidding local firms and not hiring Africans. Chinese infrastructure deals often stipulate that up to 70 percent of the labor must be Chinese. International observers also say the way China does business, particularly its willingness to pay bribes, as documented by Transparency International,

and attaching no conditions to aid money, undermines local efforts to increase good governance and macroeconomic reform by institutions like the World Bank and the International Monetary Fund (Hanson: 2008).

Nonetheless, this situation is likely to end soon as China's involvement in Africa is more strategic and long-term. There are already signs of a shift in China's terms for business in Darfur and Zimbabwe, and similar shifts are evident in China's growing attention to intellectual property rights and anti-corruption measures. Western countries have long tended to dismiss China's interest as inimical to human rights and sustainable development, but China might not be able to do so for much longer (Battersby, 2007).

Hanson (2008) explained that even though China's policy toward Africa is flexible, its broad and deep diplomatic and economic engagement ensures that even if it falls short in meeting African expectations and needs, it is constantly reassessing and adapting its policies. The same cannot be said of Africa's policy toward China. In fact, some experts suggested that the African Union's lack of a coherent official China policy weakens the continent's ability to negotiate with China. It is also argued that individual countries benefiting from China do not want the African Union involved in their dealings, and thus have resisted multilateral dealings (Hanson, 2008).

4.6.2 China’s motives to invest in Africa

China and the African continent are in a mutual trade relationship as each one benefits from each other. For China, Africa is a source of coal and oil, and for the African states, China is an ideal commercial partner that imposes no special political conditions upon its suppliers, and even gives them diplomatic backing (Hall, 2005:1). One of the primary motives for China investment in Africa is to seek its natural resources. Backward integration to acquire or secure the supply of specific location-bound resources and commodities abroad for domestic consumption has been the predominant driver of Chinese outward FDI since the late 1970s (Taylor, 2002). In fact, China’s rapid economic growth over the past decades has fuelled what some say is an almost insatiable demand for raw materials and other inputs in many sectors (Economist, 2004).

The dual objective of further improving the supply of natural resources from abroad while ameliorating (at a national level) exposure to political and commercial risk has seen Chinese enterprises recently investing in natural resource projects across a broad range of resource-rich

countries, especially in Africa. Leading recent receipt in Africa are Zambia (for copper), Sudan (oil), Angola (oil), Nigeria (oil) and Congo-Brazzaville (crude oil) (Buckley, et al., 2008: 736).

In 2000, China was the eighth leading oil importer, and by 2003 it had risen to the fourth position, after the United States, Japan and Germany. In 2000, oil imports represented 27% of its total consumption for 1999, rising to 37% in 2002, and reached 45% in 2005. Such dependency presents major obstacles to the global role that China intends to play. Until 1990, its principal suppliers were Indonesia, the sultanate of Oman, and Iran. Extending the list of its suppliers has become imperative because of its increasing domestic consumption and the depletion of Indonesian reserves. China has greatly increased its exploration of Africa's oil and is currently the second major importer of African oil, after the United States. Africa supplies 25% of its requirements as opposed to 15% in the 1980s (Lafargue, 2005).

China's motive to invest in Africa is also for market-seeking reasons. This is so as Chinese enterprises are trying to develop new markets and raise brand awareness in Africa, as Africa still has a huge market and a growing population (UNCTAD, 2003). This can be seen as Chinese companies are able to compete by selling simple, undifferentiated, matured products such as bicycles, motorcycles, clothing and electronics in most African countries.

Similarly, Chinese companies consider Africa as a market that allow them to test their industrial products, and they also offer the African markets cheap goods. The Zhongxing Telecom company is multiplying its outlets in Africa (for example, renovating the telephone network in Djibouti), including the Maghreb countries. With 900 million potential consumers, the African market holds considerable promise. And as in Europe and the United States, China can rely on well-established communities, in both the French-speaking West African countries and in those of East Africa. Even though the Chinese populations in the Maghreb countries are minuscule (there are barely a thousand in Morocco), they are markedly larger in Senegal, Kenya and Tanzania. Also, despite the way in which Chinese companies tend to become the focus of discontent, being accused of customs evasion and of competing unfairly with the local less-structured economies, African governments retain a favourable attitude, believing that the Chinese intrusion is a way of injecting competitive dynamism, bypassing traditional commercial methods (Lafargue, 2005).

4.6.3 China Trade Relation with South Africa

Despite the global recession, South Africa's foreign trade with Asia remains robust and China is now the number one export destination for South African products after being fifth in 2008. It replaces the United States, which moves into second place. Updated data from the Department of Trade and Industry (DTI) of South Africa shows that for the first half of 2009, China was South Africa's number one export destination, with annual growth of a stellar 53.9%, while the US saw an annual decrease of 42.6% in exports. China took 11.9% of South Africa's total export market, the United States 8.3% and Japan 7.5%. In 2008, according to customs data, Japan, the United States, and Germany were the country's top export markets, while Germany, China and the US were the top import markets. China is now SA's biggest import market, piping Germany, according to the latest DTI statistics (Taylor, 2010).

Furthermore, the economic and trade relations between South Africa and the People's Republic of China have grown rapidly since the formal establishment of diplomatic relations 15 years ago. China is now South Africa's biggest trading partner, easily eclipsing the European Union in 2008. China's foreign direct investment in South Africa is about R60bn (US$6bn), while its foreign direct investment in China is US$2bn. The two countries engage regularly on economic issues through a Joint Ministerial Commission (JMC). China imports raw commodities such as iron ore, copper, chrome, timber and paper pulp; imports leapt 133% between 2006 and 2008 reaching US$9.5bn, while South Africa's Chinese imports amounted to just over US$9bn in the same period (Business Source, 2009).

Most of South Africa's Chinese imports are low quality textile and clothing (T&C) products which have cause the closure of many South African textile and clothing manufacturers. In 2003-2006, South Africa's T&C industry purportedly shed 55,000 jobs, 18,000 of them since late 2004. However, the employment effect of the influx of Chinese T&C goods should be put into a wider context. An economist from the University of Johannesburg has shown that the availability of cheap Chinese T&C imports to South African retailers have greatly increased employment in the retail sector, which is one of the significant contributors to the South African GDP. This therefore implies that increase in retail jobs more than compensates for T&C job losses (Sautman and Hairong, 2008).

On the other hand, some analysts worry that China is asset-stripping Africa and other developing regions to fuel its resource-hungry economic growth. South Africa, like most of China's trading partners, exports un-beneficiated millions of tons of minerals to China, from which Chinese companies fabricate added-value and export back. The proliferation of "Made in China" products, especially appliances and apparel, has call for concern over China's penetration in the South African market. South African shoppers will affirm that it is not easy to avoid Chinese merchandise in local shops these days. After Angola, South Africa was China's biggest trading partner between 2006 and 2008, and its biggest consumer goods customer (Business Source, 2009).

4.7 SUMMARY

This chapter has examined the global trends of FDI with FDI growing at a faster pace than exports. The flow of FDI is not evenly distributed around the world as the majority of the FDI flow to developed countries rather than developing countries even though the developing countries have had the highest growth in FDI in the last six years (Rama, 2005:150-151). Also, it was interesting to see that the trend of the FDI flows in the last 5 years have been tilting towards the developing countries and away from the developed world, with China being the most preferred destination among the developing countries. Likewise, the investment targets in the developing countries are gradually changing from primary agriculture and natural resource exploitation to manufacturing and services. This therefore presents an opportunity for Africa to grow and develop like the developed countries and eradicate the notion of being a poor continent (Versi, 2005:1).

Also, the literature examined showed that FDI inflows have done contributed in improving the economic growth and development in Africa as the past two decades have seen a continuous increase in economic growth of Africa as a result of increase in FDI inflows. This increase in FDI is happening because the African countries are trying to improve their investment environment by dismantling the restrictions and regulations they had impose on FDI (AEO, 2008).

The research methodology that was used to collect and analyse the motives of Chinese SMEs investing in the Free State and their perception about the external environment of South Africa will be discussed in the next chapter**.**

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

The research methodology discussed in this chapter will focus on the methods applied to analyse the data obtained during the course of this study. In the previous chapters, the literature review was presented to put the study in proper perspective as well as to increase the understanding of FDI. In order to formulate a conceptual framework of FDI and the business environment, a literature study of various environmental factors and their impact on FDI was reviewed to form the basis of this study. Drawing on the literature review and in line with the research objectives, this chapter focuses on the overview of the research area and methods used as guideline for the empirical study. Likewise, the method employed to examine the motives of the Chinese SMEs and their perception of the external business environment will be discussed and examined in this chapter.

Lancaster (2005:78) defines research methodology as the general category of research approach being used in a research study and which relates particularly to the approach to data collection. It also involves the process of research and the decisions the researcher take to execute the research project. The body of methods of collecting data calls for a reflection on planning, structuring and execution of the research in order to comply with demands of truth, objectivity and validity (Brynard and Hanekom, 2006:36).

Chapter five follows a business research process to explain the methods applied to analyse the data collected in this study. The business research process as acknowledged by Zikmund (2003:61) include; research design, method of data collection, sample design, gathering the data, data analysis and reporting the results.

5.2 RESEARCH DEFINED

According to the Cambridge Dictionaries Online (2010), research is defined as a detailed study of a subject, especially in order to discover (new) information or reach a (new) understanding. Brynard and Hanekom (2006:2) defined research as a method of action by means of which people solve problems in an endeavour to extend the boundaries of knowledge. It also

encompasses the interpretation of data which is used to draw conclusions. Since this study focused on foreign SMEs, which are businesses, the term business research will be defined. Cooper and Schindler (2006:4) define business research as a systematic inquiry that provides information to guide business decisions. That is, it is a process of planning, acquiring, analysing and disseminating relevant data, information, and insights to decision makers in ways that mobilize the organisation to take appropriate actions that, in turn, maximise business performance.

5.3 RESEARCH DESIGN

Research design is the framework through which the various components of a research project are brought together; thus focusing on the research question, literature review, data, analysis and results. It is a crucial element of any empirical research project, whatever the research question and the chosen methodological point of view. The quality of a research design is partly a question of the overall logic of the research approach taken, and partly of how coherent its various components are. There is no strict relationship between methodology and the type of analysis used. The level of analysis (individuals, groups, organisations or inter-organisational) bears no relation to the type of approach used. In fact, no particular method appears indisputably superior to another in absolute terms. The most important aspect to consider in choosing a method is not the method in itself but what it is able to reveal of a particular problem (Thietart et al., 2001:111-112).

There are two basic types of research designs; qualitative and quantitative research. Quantitative research is associated with analytical research, and its purpose is to arrive at a universal statement. In the quantitative research, the researcher assigns numbers to observations. Data is produced by counting and measuring “things” or “objects” and there is heavy reliance of the researcher on data analysis to arrive at findings or conclusions. This type of research design also requires methods such as experiments and surveys to describe and explain phenomena. The methods could include techniques such as observation, preliminary investigations, quantitative analysis and questionnaires. Qualitative research on the other hand refers to research that produces descriptive data. Usually no numbers or counts are assigned to these observations. Qualitative research use methods such as case studies, in-depth interviewing of key informants, participant observation, questionnaires and perusal of personal documents (such as life histories,

diaries and autobiographies) are used (Brynard and Hanekom, 2006:37). The table below presents the differences between qualitative and quantitative research.

Table 5. 1: Differences between qualitative & quantitative research

Qualitative	Quantitative
Concerned with understanding behaviour from actors' own frames of reference	Seek the facts/ causes of social phenomena
Naturalistic and uncontrolled observation	Obtrusive and controlled measurement
Process-oriented	Outcome-oriented
Valid: real, rich, deep data	Reliable: hard and replicable data
Data is in the form of words, pictures or non-numerical information	Data is in the form of numbers and statistics.
Subjective – individual's interpretation of events is important (e.g. uses participant observation, in-depth interviews).	Objective – seeks precise measurement & analysis of target concepts (e.g. uses surveys, questionnaires).
Single case studies	Multiple case studies
Assume a dynamic reality	Assume a stable reality

Source: Oakley, A. (1999) and Lancaster (2005:67)

This study used the quantitative research design as its findings are mainly the product of statistical summary and analysis. There are three types of research that can be used in quantitative research or qualitative research, depending on the information required by the research problem. The three types of research are exploratory, descriptive and casual. The researcher in this study used the exploratory research in the following ways:

- By gathering preliminary information to help clarify the research problem

- By clarifying and defining the nature of the research problem or opportunity by giving ideas or insights as to how the research problem can be addressed
- By progressively narrowing the scope of the research topic and consequently paraphrase the problem or opportunity clearly
- By developing and refining the questionnaire items, and
- By refining the research question and problems.

Also, the researcher used secondary data analysis by reviewing peer-reviewed journal articles, books, and other sources of information related to the study such as the world investment reports (WIR). The secondary data analysis helped to refine the research question and problems. The researcher used experience survey by asking some Chinese employers to clarify some issues related to the research. In addition, discussions were held between the researcher and his study leader to clarify issues related to the research questions and to refine the questionnaire. Furthermore, the researcher conducted a pilot study with some foreign business owners in Bloemfontein. This helped to improve the validity of the research as the pilot study helped to develop and improve the questionnaire.

Moreover, the researcher used the cross-sectional type-of-research as information was collected from the sample population only once through the survey method. In addition, descriptive statistics such as the mean, standard deviation, bar chart and tables were used during data analysis.

5.4 METHOD OF DATA COLLECTION

The data collection method used in this study was the survey method as other methods such as observation and experimental methods were inapplicable to collecting data to investigate the research problems. In survey research, the researcher uses a research technique in which information is gathered from a sample of respondents using a standardized questionnaire. This study used survey research because it provides quick, inexpensive, efficient and accurate means of assessing information about the population. Also if conducted properly, surveys are extremely valuable as they ask questions to the respondents to find out what people think about a situation

or problem i.e. abstract information of all types can be gathered by questioning others (Zikmund, 2003:175).

The self-administered type of survey method was used as questionnaires were personally delivered to the respondent by the researcher and completed by the respondent with no interviewer involved. This method of data collection was used by the researcher because according to Cooper and Schindler (2006:253), the self-administered survey has the following advantages:

- Expand geographic coverage without increase in costs
- Perceived as more anonymous
- Allows contact with otherwise inaccessible participants (business owners or CEOs)
- Allows participants time to think about questions
- Incentives may be used to increase response rate
- Often the lowest-cost option
- Requires minimal staff
- Proved to have a higher response rate than other data gathering techniques such as mail surveys.

The researcher used a Chinese translator to improve communication with the Chinese owners during the questionnaire distribution. The researcher was also able to obtain the names and telephone numbers of the respondents when the questionnaires were distributed. Repeated call backs were made to the respondents to ensure they completed the questionnaires.

5.4.1 Questionnaire design and content

A questionnaire was the primary research instrument in this study. Cooper and Schindler (2006:716) define a questionnaire as a set of questions delivered to the participant via a personal (intercept, phone) or non-personal (computer-delivered, mail-delivered) means that has to be completed by the participant. Questionnaires were used in this study because it gave the respondents enough time to think about the answers to the questions in the questionnaire. It also

offers the possibility of standardizing and comparing scales and enables the anonymity of the data source to be preserved. Moreover, with the questionnaire, a large number of respondents distributed over a large geographical area can be reached (Brynard and Hanekom, 2006:46).

Seven-point and five-point Likert scale questions were used. The Likert scale was used to measure the respondent attitude. This was done by asking them to indicate how strongly they agree or disagree with the carefully constructed statements that were either positively or negatively phrased. Likert scales are friendly and minimize confusion and misunderstanding.

The questions in the questionnaire were mostly closed-ended questions. The researcher used closed-ended questions because they are easier to code, record and analyse compared to the opened-ended questions. Also the closed-ended questions are favoured by researchers over opened-ended questions for their efficiency and specificity. To add, the response rate is higher with surveys that use closed-ended question than with those that use open-ended questions (Cooper and Schindler, 2006:444). The researcher used three open-ended questions for this research.

The questions in the questionnaire were grouped into five sections:

SECTION A: Perception of the Business /External Environment in South Africa (SA)

The main objective of this study was to investigate the motives of Chinese SMEs foreign direct investment in the Free State Province (FSP) and their perception about the external business environment in South Africa. Ninety-six questions were used in this section to determine how the Chinese SMEs owners perceive the business environment in SA and what motivated them to invest in SA. The questions were developed through a thorough review of the literature in chapters 2, 3 and 4 of this study and refined through exploratory research and pretesting.

SECTION B: The perception of Xenophobia amongst Chinese SMEs

The questions in this section were to ascertain the perception of xenophobia amongst Chinese SMEs.

SECTION C: Networking

The questions in this section were about the information sources/networks the Chinese SMEs owners considered when starting their business in South Africa. The respondents were asked to rank the information sources from the most importance to the least important.

SECTION D: Ethical attitudes

The questions in this section were to determine the Chinese SMEs ethical attitude towards doing business in South Africa.

SECTION E: Demographics

The questions in this section were to determine the demographic information of the respondents. Questions in this section included experience, number of employees, industry type and level of competition in the industry.

5.5 SAMPLE DESIGN

According to Hair et al. (2007:170), a sample is a relatively small subset of a population. It could be drawn either using probability or non-probability procedures. A sample must be representative of a population from which it is drawn. In other words it should mirror characteristics of the population. A population, therefore, is the total of all the elements that share some common set of characteristics.

Sampling on the other hand is a technique employed to select a small group (the sample) with a view to determining the characteristics of a large group (the population). If selected discerningly, the sample will display the same characteristics or properties as the large group (Brynard and Hanekom, 2006:54).

Brynard and Hanekom (2006:54), acknowledge that a sample of a population is often used for the following reasons:

- To simplify the research: it is easier to study a representative sample of a population than to study the entire population.
- To saves time: studying an entire population can be time-consuming, especially if the population is very large or distributed over a large geographical area.

- To cut cost: observing, interviewing or using questionnaires to collect data from every element of a population can be very costly if the population is large and geographically distributed over a large area.

- To determine specific properties of the whole (an example will be to eat a single slice of an apple- if it is sweet, then the whole apple is judged to be sweet).

5.5.1 Population

For the purposes of sampling, "population" does not refer to population of a country but refers to a group in the universe which possesses specific characteristics. The universe refers to all the subjects who pass the attributes in which the researcher is interested (Brynard and Hanekom, 2006:55). In this study the research population is Chinese SMEs in the Free State province of South Africa. The population size of Chinese SMEs in the Free State province was unknown as there was no database or information about the number of Chinese SMEs operating in the Free State. (See chapter 6.2 for more information about how the unknown population size was estimated).

5.5.2 Sample size

The sample size is the number of elements retained for statistical analysis. Determining the size of a sample really comes down to estimating the minimum size needed to obtain results with an acceptable degree of confidence. For samples destined for qualitative data processing, the sample size must be one that enables the study to attain the desired degree of precision or significance level; for quantitative research it is the size that confers an acceptable credibility level. Whatever type of data processing used, the larger the sample, the greater the confidence in the results (Thietart et al., 2001:157).

This study used the simple random sampling method and a non-probability snowball sampling method to determine the sample size of Chinese SMEs in the Free State province. The initial respondents were identified using the simple random sampling method. The simple random sampling was used as each population element has a known and equal chance of being selected in the sample. The snowball sampling technique was then applied on these initial respondents as they refer the researcher to other Chinese SMEs operating in the Free State province (Cooper and Schindler, 2006:414&425). This procedure was chosen because it was the most practical

procedure to use given the fact that accurate records of the location, number and size (in terms of employment and financial measures) of SMEs of a specific nationality (Chinese) are not available in the Free State province.

The Demetra (2010) sample size calculator was also used to determine the sample size of this study. Demetra is statistical software used in the calculation of sample size. Demetra statistical software application estimates how many questionnaires have to be completed to have a representative sample and the precise level obtained by the sample. Demetra has two main concepts when calculating the sample size. These are the confidence interval and confidence level. The confidence interval is the amount of error that the researcher can tolerate while the confidence level is the amount of uncertainty one can tolerate or it represents how much the researcher want to be sure of result. Also lower confidence interval requires a larger sample size while higher confidence level requires a larger sample size (Raosoft, 2008).

In this study the researcher could not estimate the population size (Chinese businesses in the Free State province). But, using Demetra (2010) sample size calculator, it is possible to calculate the sample size without knowing the actual population size. Hence, the researcher used the Demetra sample size calculator. In using the calculator, the researcher used a confidence interval of 10% and a confidence level of 95% to obtain a sample size of 96. Therefore, the sample size used or the number of questionnaires used in this study was 96. (Refer to chapter 6.2.1 for more information about the Demetra sample size calculator)

5.6 GATHERING THE DATA

The researcher personally distributed the questionnaires to the Chinese SME owners. A professional Chinese translator was hired which helped to easy communication between the researcher and the respondents during the questionnaire distribution. The questionnaires were distributed to the respondents between the month of June and August of 2010. These questionnaires were distributed to Chinese SMEs owners across the Free State (FS) province. The preferred sample frame was a mixture of Chinese SMEs from different industries and from different towns in the Free State. The questionnaires were distributed to Chinese SMEs in Bloemfontein, Botshabelo, Thaba-Nchu, Welkom, Ladybrand, QwaQwa and Sasolburg. The essence of this mixture is to have results which are representative. The respondents were given one week to complete the questionnaires. The researcher was also able to obtain the names and

telephone numbers of the respondents when the questionnaires were distributed. Repeated call backs were made to the respondents to ensure they completed the questionnaires. The snowball sampling technique and the links with Chinese students and Chinese employees helped to ensure the collection of the data.

Furthermore, there were questions that the respondents did not answer (see chapter 6.3.1 for the response rate of the respondents). These unanswered questions were treated as missing values. In this study the researcher treated the missing values by leaving the missing values in place, i.e. nothing was done to it. So when the data was analysed using the Statistical Package for Social Sciences (SPSS) software, the pairwise deletion technique was used to treat the missing values. With the pairwise deletion technique, the SPSS included all available data as the pairwise deletion removes only the specific missing values from the analysis and not the entire case (subject).

5.7 DATA ANALYSIS

After the data was collected, the data was entered into an Excel spreadsheet in the form of numbers so that the data can become convenient to view and understand. Lancaster (2005:157) defined data analysis as the process of turning data into information that in turn can serve to develop concept, theories, explanations or understanding of the research findings. The researcher used the quantitative analysis tools and techniques to analyse the data collected. This quantitative tools and techniques were used because this research and its data are quantitative. Also, it was used because quantitative analysis of data offers some advantages over qualitative analysis. Quantitative analysis potentially offers the advantage of increased objectivity in interpreting data, measures of validity and reliability and can be used to analyse large volumes of data that in turn can be succinctly presented in a way which is readily communicable (Byrne, 2002; Lancaster, 2005:161).

The quantitative analysis tools and techniques used for this study include descriptive statistics, cross-tabulations, frequency tables and T-tests. Cronbach's alpha was used to measure the reliability of the study.

5.7.1 Statistical test applied

The Statistical Package for Social Sciences (SPSS Version 18.0 for Windows) statistical software programme was used in the statistical analysis of the data. This program which is dedicated to processing statistics is usually used in the social sciences field in the analysis of information. SPSS is also commonly used by researchers to perform quantitative analysis.

5.8 REPORTING THE RESULTS

After the data has been analysed, the researcher will then report the results. The research report involves findings, analyses of findings, interpretations, conclusions and recommendations. This research report will be presented in chapter six and seven.

5.9 SUMMARY

This chapter examined the research methodology used in collecting and investigating the data necessary to answer the research objectives. Research was defined and then the steps in the business research process were used by the researcher to explain how the research methodology was carried out. The two major types of research design, namely qualitative and quantitative research, were explained and their differences mentioned. The respondents were identified by using the simple random sampling method and a non-probability snowball sampling method. Data was collected by making use of a structured questionnaire and it was self-administered by the researcher. The questionnaire contained mostly close ended questions and Likert scale questions. The data obtained from the respondents were processed and analysed using SPSS software. The analysis techniques used are descriptive statistics, cross-tabulations, frequency tables and T-tests. Chapter six will present the data analysis and discussions related to the information obtained through the empirical study.

CHAPTER SIX

RESEARCH RESULTS

6.1 INTRODUCTION

This is the culmination of all the background work aimed at uncovering the motives of Chinese SMEs investing in the Free State province and their perception about the external business environment of South Africa. This chapter presents the detailed results and findings derived from analyzing the data gathered for the study. The results and findings are presented within the parameters set by the literature review and the methodology followed. Any additional findings that may arise during the analyses, for which evidence have been gathered, are presented under the appropriate headings.

This chapter commences by mentioning the sample size of the respondents and then explaining the level of difficulty to determine the population and to obtain the sample of Chinese SME owners to participate in the study. The next section will be about narrating the empirical findings. The section of the empirical findings is divided into ten sub-sections. The first sub-section describes the profile of the respondents that participated in the study alongside the number of respondents who were not considered in the study. The second subsection displays the demographics of the study in tables and will use cross-tabulation to determine if there is a relationship among some of the demographic variables. The third sub-section portrays the reasons why some of the respondents will not consider investing again in the RSA if they were to go over their decision today. The fourth subsection explains what information sources the Chinese SME owners considered the most when deciding to come and invest in South Africa. This sub-section also shows the factors that motivated the respondents to start a business in the RSA. T-tests will be conducted to see if there is a significant relationship between the motivational factors and the business size or the type of business sector. The fifth sub-section illustrates how the respondents rate the provincial and national services within the RSA on a scale ranging from very bad to very good. This sub-section will further portray how the respondents rate government support and effectiveness of some of its services in the business environment.

The sixth sub-section describes the respondents' perception about xenophobia and the business ethics in South Africa. This sub-section will begin by first illustrating what percentage of Chinese SMEs have suffered from xenophobic attacks, crime or lost business because of the BEE policy. The seventh subsection depicts how the respondents perceive the overall procedure to start a business in the RSA. The eighth sub-section reveals how certain external environmental factors impact the business of the respondents. Cronbach's alpha will be use to determine the reliability of the major external factors impacting the Chinese SMEs. T-tests were also conducted in order to determine a significant difference in the mean score of the major external factors with respect to demographics. The ninth and final sub-section shows how the respondents perceive the external environment of South Africa. The external environmental factors were grouped into four groups; economic, political/institutional socio-cultural and legal factors. Cronbach's alpha's were use to measure the reliability of the different environmental factors under each of the four groups. T-test will be use to determine if there is a significant difference in the mean scores of the environmental factors with respect to demographics such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in the RSA.

Most of the findings in the empirical sub-sections will be presented in tables and figures, and due to the large number of data analysis; only the summary results will be presented in this chapter. The full data analysis will be displayed in the appendices section.

6.2 SAMPLE SIZE

This study was based on a simple random sampling method and a non-probability snowball sampling method of Chinese SMEs in the Free State province (Cooper and Schindler, 2006:718). This procedure was chosen because it was the most practical procedure to use given the fact that accurate records of the location, number and size (in terms of employment and financial measures) of SMEs of a specific nationality are not available in the Free State province.

To determine the population and obtain the sample size of this study were problematic as it was difficult to access the Chinese business owners in the Free State province. One of the reasons was that there was no organized Chinese association in the Free State province where one could access them. Another reason was that very few Chinese businesses had their phone numbers or physical addresses in the phone directory (yellow pages). The researcher also approached various government departments and organizations to see if information about Chinese businesses

operating in the Free State province was available. The organizations approached were SEDA, Bloemfontein Chamber of Commerce (BCC), Free State Development Corporation (FDC), Free State Investment Promotion Agency, the municipalities, the tourism department and the Chinese embassy in Pretoria and the Consulate-General in Johannesburg. None of these organizations had a database or information about the number of Chinese SMEs operating in the Free State province. This therefore was another huge problem to determine the total population of the Chinese SMEs in the Free State.

As a result of having difficulties to access a data base for Chinese businesses, there was no existing population frame available to determine the sample size. To overcome some of these problems, the researcher used the simple random sampling method and the non-probability snowball sampling method to identify and determine the sample size. Snowball sampling method is defined by Cooper and Schindler (2006:718) as a non-probability sampling procedure in which subsequent participants are referred by current sample elements and the referrals may have characteristics, experiences or attitudes similar to or different from those of the original sample element. Also, snowball sampling refers to a variety of procedures in which initial respondents are selected by probability methods and additional respondents are then obtained from information provided by initial respondents (Zikmund, 2003:384).

The non-probability snowball sampling method was used because the respondents were difficult to identify and the best way to locate them was through referral networks. In the initial stage of this snowball sampling, simple random sampling was used to identify the initial respondents. These initial respondents were accessed as the researcher used the telephone directory (yellow pages) to contact the Chinese SME owners whose phone numbers were in the directory. After persuading them to participate in the research, the snowball sampling technique was then introduced as these Chinese SME owners did refer the researcher to others Chinese SME owners and who in turn, identify others. This is the process through which the researcher obtained its number of respondents.

The researcher also faced the problem of Chinese business owners not speaking or understanding English, and as such was not willing to participate or had no trust in the researcher. To solve this problem the researcher had to translate the questions into Chinese for the respondents to easily understand. The researcher also had to hire a Chinese translator to accompany him during the

questionnaire distribution process. This translator built some trust with the respondents and helped the respondents to answer the questions (especially those who could not understand English).

6.2.1 Regional distribution

The sampling of this study included both manufacturing and service businesses across a wide range of industries. The Chinese SMEs were regionally separated as separating the SMEs by regional sectors ensured that there was no over representation of one region in the Free State. The questionnaires were distributed to Chinese SMEs owners across the Free State Province. The respondents that participated in the study were a mixture of Chinese SMEs from different industries and from different towns in the Free State province such as Bloemfontein, Botshabelo, Thaba-Nchu, Welkom, Ladybrand, QwaQwa and Sasolburg. The essence of this mixture is to have results which are representative of the Free State province. The towns mentioned above represent four of the five district municipality in the Free State province. The Xhariep district municipality region was not included in this research for two reasons. Firstly, the Chinese SME owners who were identified by random sampling in Bloemfontein did suggest that there were very few Chinese businesses in the Xhariep district that they know of. Secondly, the Xhariep district municipality region has the smallest population (135,248) compared to the other districts in the province (Statistics South Africa, 2008). As such due to time constraint and cost, the researcher did not deem it necessary to consider the Xhariep district in the study.

Also due to a time constraint, cost and limited information about Chinese SMEs in the province, only the main towns in the four Districts in the province were approached. Table 6.1 illustrates the regional pattern of the Free State with respect to the population size, the number of Chinese businesses approached and number of Chinese SMEs used in the study. The towns involved in the study show a good regional representation of the Free State province; thus the majority of the Free State areas were covered. A total of 148 Chinese businesses were approached or contacted but only 96 Chinese SMEs were considered in the study as those were the questionnaires that were returned fully completed.

Table 6.1: The population size, the number of Chinese businesses approached and number of Chinese SMEs used in the study with respect to the four districts

District Municipality	Population	Town	Contact	%	Response	%
Motheo	837,376	Bloemfontein	50	34%	35	36%
		Botshabelo	20	14%	13	14%
		Thaba Nchu	10	7%	7	7%
		Ladybrand	10	7%	6	6%
Total			90	61%	61	64%
Thabo Mofutsanyane	694,316	QwaQwa	20	14%	10	10%
Lejweleputswa	639,651	Welkom	15	10%	10	10%
Fezile Dabi	474,089	Sasolburg	23	16%	15	16%
Total			58	39%	35	36%
Grand Total			148	100%	96	100%

(Statistics South Africa, 2008)

Table 6.1 shows that most of the questionnaires were distributed in the Motheo district municipality with much attention paid to the Mangaung Local Municipality. Bloemfontein, Botshabelo and Thaba Nchu are the major towns in the Mangaung Local Municipality. Most of the questionnaires were distributed in the Mangaung Local Municipality area because it is the most densely populated area in the Free State with 104 people per km2 and has 24% of the total Free State province's population. Also, the economy of the Mangaung Local Municipality plays a significant role in the Motheo District economy (92.5%) as well as the Free State economy (25.5%) and its growth in all sectors except for agriculture outperforms other Districts in the province. Another reason why the researcher focuses more on Bloemfontein than other towns in the province is because Bloemfontein is the economic hub and the provincial and commercial capital of the Free State. Bloemfontein's economy production is approximately 87% in the Mangaung area as compared to 7% and 6% respectively in Botshabelo and Thaba Nchu (Mangaung Local Municipality, 2010).

One more reason for distributing more questionnaires in Bloemfontein or the Motheo District is that the researcher is based in Bloemfontein and it was more convenient to access more Chinese SMEs in this region compared to other areas such as Sasolburg or QwaQwa. Also, most of the

referrals from the initial respondent contacted were based in the Motheo District; hence the researcher was forced to contact more Chinese SMEs in this region.

Furthermore, to address the difficulties in determining the actual population size of the Chinese business population in the Free State province, the Demetra (2010) sample size calculator was use to estimate the sample size. The Demetra (2010) sample size calculator is valid for this research as it can calculate the sample size without knowing the actual population size. In using the calculator, the researcher used a confidence interval of 10% and a confidence level of 95% to obtain a sample size of 96. This therefore indicates that the sample size used in this study (96) is the same as the sample size estimated by the Demetra (2010) sample size calculator. Hence, 96 questionnaires used in this studied should be regarded as valid to make conclusions about Chinese businesses in the Free State province.

6.3 THE EMPIRICAL FINDINGS

The empirical results show the demographic situation of Chinese businesses operating in the Free State province and also an analysis of how they perceive the business environment of South Africa. Cross-tabulations, frequencies, graphs, Cronbach's alpha and T-test were used to investigate the relationship among these groups; the external environmental factors, the type of businesses, number of employees, years of operation and the motivational factors. To add, the results from the T-test will determine if there were significant differences in the mean score of the various groups.

6.3.1 Profile of the respondents

This section illustrates and evaluates the following demographics of the sampled Chinese SMEs; response rate, type of business, number of employees, years of operation and the level of competition in the industry. Table 6.2 shows the response rate of the Chinese SMEs contacted. The researcher personally distributed 148 questionnaires to Chinese businesses using the snowball distribution technique. Of the 148 questionnaire sent, 35 questionnaires were not returned or completed at all. This was so because some of the respondents were not willing to answer the questionnaires as they still had some doubts in participating in the research. Also, when the questionnaires had been distributed, the researcher could not get hold of some of the business owners for collection as they were nowhere to be found. This is so as some of the owners had travelled abroad and some say they were very busy and had no time to complete the

questionnaires. The respondents that were unable to be contacted again, or complained they were busy or had travelled abroad, are all responsible for the questionnaires that were not returned.

Table 6.2: Response rate

Questionnaire	Number	Percentage
Total Sent	148	100%
No response	35	24%
Collection	113	76%
Not properly completed	17	11%
Properly completed	96	65%

As a result of the 35 questionnaires not returned, 113 questionnaires were collected but 17 of the questionnaire were not properly or fully completed. This therefore caused the researcher not to consider the 17 uncompleted questionnaires in the study, thus prompting the researcher to consider 96 questionnaires which were properly completed. To sum up, a total of 96 questionnaires out of 148 questionnaires distributed, were considered in this study with 52 questionnaires not considered as a result of 17 not fully completed and 35 questionnaires not returned at all. This implies that 65% of the Chinese SMEs, who were contacted to participate in this research, did answer the questionnaires completely or were actually considered in the study.

6.3.2 Demographics

This demographic section presents four important aspects about the respondents or four demographic groups. The four demographic groups are type of business sector, years of business operation, number of employees in the business and the import/export activities of respondents. This section will then look at the interrelationship among these demographic groups using a cross-tabulation technique.

6.3.2.1 The type of business sector

Table 6.3 represents the various business sectors in which the respondents operate.

Table 6.3: Type of business sector

	Number	Percentage
Business Sectors		
Retail/ Wholesale	37	39%
Manufacturing	33	34%
Food, restaurant, beverage and tobacco	12	13%
Construction	5	5%
Finance and business services	5	5%
Agriculture	3	3%
Sector not specify	1	1%
Total	96	100%

Of the 96 respondents, the majority were in the retail/wholesale sector (39%) while 34% and 13% represents SMEs operating in the manufacturing and food/restaurant business respectively. There was one respondent whose business sector was not among the ones listed in the questionnaire but also did not specify the business sector in which they operate.

6.3.2.2 The experience of the respondents

This section looks at the experience of the respondents in the business they are operating. Table 6.4 below illustrate the number of years of business operation of the respondents together with the mean.

Table 6.4: Number of years of business operation

	Number	Percentage
Years		
0 - 2	6	6%
3- 4	21	22%
5 - 6	23	24%
7 - 8	14	15%
9 -10	8	8%
11 and more	24	25%
Total	96	100%
Mean	8.00	

The question regarding the number of years of operation was an open-ended question. Table 6.4 shows how the responses have been grouped into six groups with an interval of two years except for those with 11 or more years. One quarter (25%) of the respondents has been operating in SA for 11 years or more and the average experience of the respondents is 8 years. This implies that on the average the respondents had sufficient experience about the business environment of SA and were therefore able to give informed responses to the questions. Likewise, since 25% of the respondents have been in business in SA for 11 years or more, this means one quarter of the respondents in this study have sufficient experience of the business environment of SA and are more likely to give informed responses to the questions. This therefore increases the validity of this study as these respondents are capable of giving objective responses about the business environment of SA.

Furthermore, with regard to the experience of the respondents, 40% of the respondents indicated that they had operated a business in China before with 11% specifying that they still continue to operate the business in China. Also, 19% of the respondents confirm that they had operated a business in another country other than China. To add, 14% of the respondents mentioned that they do have other branches or businesses in South Africa. This therefore shows once again how experienced the respondents are in this study, hence increasing the validity of the study as the responses are reliable.

6.3.2.3: The size of the respondents' businesses

Table 6.5 indicates the size of the Chinese SMEs based upon the number of employees. According to Philp (1998), the number of employees is a better surrogate for size because this measure can be more easily applied cross-nationally than financial measures that are fraught with difficulty when applied internationally.

Table 6.5: Number of employees of respondents

	Number	Percentages
Employees		
0 - 5	20	21%
6 - 10	19	20%
11 - 15	12	13%
16 - 20	8	8%
21 - 40	18	19%
41 - 60	11	11%
61 - 80	2	2%
81 - 100	1	1%
101 and more	5	5%
Total	96	100%
Mean	25.00	

The data collected about the number of employees which is presented in table 6.5 is grouped into nine groups, with the first four groups having an interval of 5 employees and the last five groups having an interval of 20 employees. However, the data was collected with an open-ended question (respondents indicated the exact number of employees they had in their business). The respondents have on average 25 employees. Table 6.5 also shows that 41% of the respondents had less than or equals to 10 employees while 59% had more than 10 employees.

6.3.2.4: Import and export activities of respondents

Table 6.6 presents the responses of the respondents with respect to whether they do import or export or do both.

Table 6.6: Import and export activities

	No.	%
Import	42	44%
Export	16	17%
Import and Export	12	13%

The result in table 6.6 showed that almost half of the respondents in this study do import goods from abroad as compared to very few respondents that export. Most of the 42 respondents that import do sell locally in the South African market as only 12 of them do import and export. Only

4 of the respondents do produce in South Africa and export. 46 (48%) of the respondents do import or export. This implies 52% of the respondents do buy and sell locally in the South African market. The responses also indicate that majority of the Chinese FDI attracted in the Free State province are market-oriented FDI as most of the Chinese SMEs are operating in the SA market with only 16 Chinese SMEs carrying out exports.

6.3.2.5: Interrelationship among the demographic factors

This section describes the interrelationship among the various demographic factors in order to better understand the background relation of the different demographic factors. The demographic factors that will be used to show the interrelationships are the type of business sector, length of operation, size of business and import and export activities.

6.3.2.5.1 Size of the business versus length of operation

The size of the business in this study is been determined by the number of employees while the length of operation refers to the number of years in business. The questions about the number of employees and number of years were open-ended questions. As such, in order to derive a relation between these two demographics, each of the demographics is split into two groups. Thus, the responses to the number of employees were grouped into two groups, namely SMEs with less than or equal to (≤) 10 employees and SMEs with more than (>) 10 employees. The responses about the years of operation were also grouped into two groups, namely SMEs with less than or equals to 6 years of operation and SMEs with more than 6 years of operation. Table 6.7 illustrates that respondent SMEs with 10 or less employees were 39 while those with more than 10 employees were 57. Similarly, 50 respondents indicated that they have been operating in SA for 6 or less years while 46 respondents mentioned that they have been operating for more than 6 years.

Table 6.7: Number of employees versus number of years of business operation

	SMEs with ≤ 6 years of operation		**SMEs with > 6 years of operation**		**Total**	
	Number	%	Number	%	Number	%
SMEs with ≤ 10 employees	29	58%	10	22%	39	41%
SMEs with > 10 employees	21	42%	36	78%	57	59%
Total	50	100%	46	100%	96	100%

The results in table 6.8 show that the majority of the SMEs with greater than 6 years of operation have more than 10 employees while majority of those with less than or equal to 6 years of operation have less than 10 employees. This therefore implies that the longer the Chinese SMEs operate in South Africa, the bigger their businesses become as they tend to employ more people. Thus, South Africa needs to keep them as long as possible as they could help reduce the unemployment rate.

6.3.2.5.2 Type of business sectors with regard to size of the business and length of operation

The type of business sector has been divided into three groups or sectors i.e. manufacturing, retail/wholesale and the other sectors (grouped together). Table 6.8 depicts the type of business sectors with regard to years of operation and number of employees.

Table 6.8: Type of business sectors with regard to years of operation and number of employees

	Manufacture		**Retail/ Wholesale**		**Others**		**Total**	
	Number	%	Number	%	Number	%	Number	%
SMEs with ≤ 6 years of operation	8	24%	26	70%	16	62%	50	52%
SMEs with > 6 years of operation	25	76%	11	30%	10	38%	46	48%
Total	33	100%	37	100%	26	100%	96	100%
SMEs with ≤ 10 employees	3	9%	24	65%	12	46%	39	41%
SMEs with > 10 employees	30	91%	13	35%	14	54%	57	59%
Total	33	100%	37	100%	26	100%	96	100%

The results in table 6.8 show that majority of the respondents in the manufacturing sector have been operating for more than 6 years as well as having more than 10 employees. Conversely, most of the respondents in the retail/wholesale sector have been operating for less than or equal to 6 as well as having less than or 10 employees. On the other hand, SMEs in the other sector group do have most of their SMEs having less than or equals to 6 years of operation but do have more than 10 employees. Since the manufacturing sector employs more people than any other sector, it is therefore necessary for South Africa to focus more on attracting manufacturing businesses to address the unemployment problem.

6.3.2.5.3 The size of the business and length of operation associated with import and export activities.

Table 6.9 portrays the size of the business and length of operation with respect to import and export activities.

Table 6.9: Years of operation and number of employees of respondent associated with import and export activities

	Import		Export	
Years of operation	**Number**	%	**Number**	%
SMEs with ≤ 6 years of operation	21	50%	4	25%
SMEs with > 6 years of operation	21	50%	12	75%
Total	42	100%	16	100%
Size of business				
SMEs with ≤ 10 employees	15	36%	2	13%
SMEs with > 10 employees	27	64%	14	88%
Total	42	100%	16	100%

Most of the respondents who are involved in imports and exports have more than 10 employees. This implies that import and export businesses employ more people, and as such it is important to attract resource-seeking FDI or export-seeking FDI as they will reduce the unemployment rate thus improving the economic development. Also, the majority of the export businesses have been operating for more than 6 years. As Gichira (2003) stipulates, attracting long-term FDI is better than short-term FDI as they have more positive spill-over effects in the host economy and they minimise capital flight; thus pursuing export-oriented FDI guarantees South Africa that they will operate for long. Hence, South Africa will benefit from the spill-over effects such as technological skills, managerial skills and expertise skills.

6.3.2.5.4 Import and export activity with respect to the type of business

Table 6.10 shows the various business sectors in which the Chinese SMEs carryout import and export activities.

Table 6.10: Import and export activity associated with business sectors

	Import		Export	
	Number	**%**	**Number**	**%**
Manufacture	23	55%	15	94%
Retail/ Wholesale	14	33%	0	0%
Others	5	12%	1	6%
Total	42	100%	16	100%

The majority of the Chinese SMEs carrying out import and export activities are in the manufacturing sector. This means that out of the total 33 SMEs involved in manufacturing, 23 of them do import goods from abroad and manufacture locally while 15 of them do manufacture locally and export abroad. None of the retail/wholesale SMEs do export, hence, implying that 14 out of the 37 SMEs involve in retail/wholesale do import and sell their goods locally while 23 of the remaining 37 Chinese SMEs do buy locally and sell locally. Again, it accentuates the importance of attracting manufacturing businesses to South Africa, because they export and generate foreign currency.

6.3.2.6 Conclusion regarding demographics of respondents

To sum up the last four subsections, it is observed that most of the exporters are manufacturers and the majority of the larger SMEs with more than 10 employees are also in the manufacturing sector. Likewise, the majority of the respondents with more than 6 years of operation are in the manufacturing sector. According to Buckley and Meng (2005) attracting FDI which are in the manufacturing sector is the best kind of FDI because they are capable of reducing unemployment, increase currency exchange through exporting, provide new technology and have a more positive impact on productivity and economic development of the host country. Therefore, it is important for South Africa to try and keep these Chinese manufacturers because the majority of them are doing the exporting and employing more people, thus improving the balance of trade, creating jobs, improving economic growth and reducing poverty.

6.3.3 Decision to start a business again in South Africa

This section presents the responses of the question as to whether the respondents would start a business all over again if they had to go over their decision today. The section will also show how Chinese SMEs with the following demographic features; length of operation, number of

employees, business sector and import/ export, response to whether they will invest again or not if given the opportunity to make a decision today. Table 6.11 portrays the number of respondents who will and will not invest again alongside their reason for not investing again.

Table 6.11: Decision to start a business again

	Number	%
Would started a business in SA again		
Yes	63	66%
No	33	34%
Reasons of not doing business again		
Crime	17	52%
Labour union	9	27%
Labour strikes	5	15%
Cost of Labour	2	6%
Total	33	100%

From table 6.11, the majority of the respondents (66%) said they will start a business again if they had to go over their decision today while 34% of the respondents said they will not start a business again in South Africa. The following reasons account for the Chinese SMEs who said they are not willing to start a business all over again: crime (52%), labour union (27%), labour strikes (15%) and cost of labour (6%). Crime is seen here as the most important reason for the Chinese SMEs owners not wanting to invest again. Table 6.12 illustrates SMEs who will invest again and SMEs who will not invest again with respect to their length of operation, number of employees, business sector and import/ export activities.

Table 6.12: SMEs who will invest again and SMEs who will not invest again with respect to their length of operation, number of employees and import or export activities

	SMEs who will invest again		SMEs who will not invest again		Total	
Years of operation	Number	**%**	Number	**%**	Number	%
SMEs with ≤ 6 years of operation	37	59%	13	39%	50	52%
SMEs with > 6 years of operation	26	41%	20	61%	46	48%
Total	63	100%	33	100%	96	100%
Size of business						
SMEs with ≤ 10 employees	30	48%	9	27%	39	41%
SMEs with > 10 employees	33	52%	24	73%	57	59%
Total	63	100%	33	100%	96	
Business sector						
Manufacture	11	17%	22	67%	33	34%
Retail/ Wholesale	28	44%	9	27%	37	39%
Others	24	38%	2	6%	26	27%
Total	63	100%	33	100%	96	100%
Activity						
Import	20	32%	22	67%	42	44%
Do not Import	43	68%	11	33%	54	56%
Total	63	100%	33	100%	96	100%
Export	2	3%	14	42%	16	17%
Do not export	61	97%	19	58%	80	83%
Total	63	100%	33	100%	96	100%

The majority of the respondents who said they will not invest again if they had to go over their decision today have been operating for more than 6 years and are mostly the bigger business with more than 10 employees. This is a problem as one would expect that respondents who have been in the RSA for a longer period should be more used to the business environment of South Africa and thus be willing to invest again. However, the opposite is true. Also, the manufacturing sector is the business sector with the highest number of respondents who are not willing to invest again. Similarly, the majority of those who import (22) and export (14) indicated that they will not invest again. This therefore is a major problem because the foreign businesses South Africa needs to keep (manufacturers who export), are the most unhappy about their decision.

6.3.4 Important information sources and motives for starting a business in SA

This section presents the information sources the respondents considered the most when deciding to start a business in South Africa and also what factors influence their decision to start a business in this country.

6.3.4.1 Information sources considered

Table 6.13 cite the results of the question asked about what five information sources the respondents deem as most important when deciding originally to come and start a business in the RSA. They were to rank the five information sources from 1 for most important to 5 for least important.

Table 6.13: Information sources

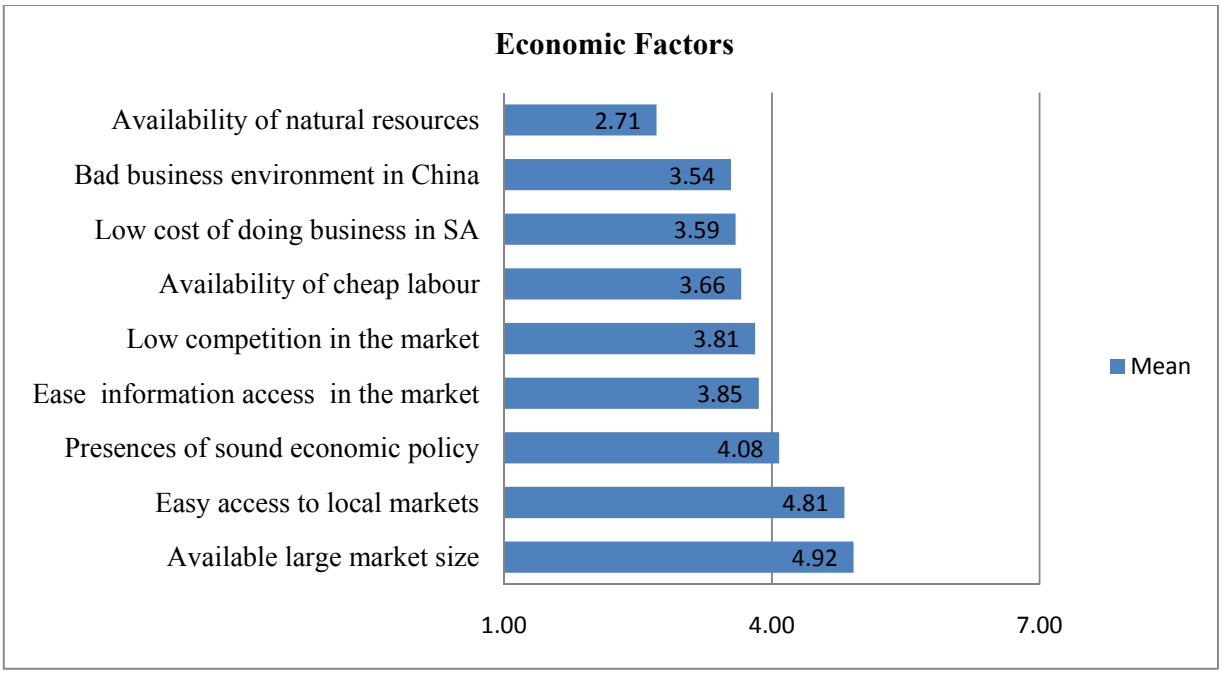
	Ranking					Mean
Information sources	1	2	3	4	5	2.99
Personal sources (e.g. Friends)	42	18	11	10	13	2.30
Electronic sources (e.g. internet, television)	10	25	34	16	9	2.71
Media sources (e.g. Magazines, brochures)	13	27	30	22	2	2.88
Personal visit to SA	20	16	8	32	18	3.13
Conferences and seminars	11	9	6	17	51	3.94

The result showed that personal sources (e.g. friends and family members) were the most important source impacting their decision to come to South Africa, while conferences and seminars were the least important. This therefore implies that most of the respondents considered personal sources or referrals from their friends or family members before considering coming and starting a business in South Africa. This further lays emphasis that South Africa needs to encourage the existing Chinese SMEs to stay, especially those in the manufacturing sector and those that have been operating for some time, if they want to attract more FDI. In addition, having unsatisfied existing Chinese SMEs in the RSA can influence the decision of foreign businesses (that use the method of referral from existing businesses) not to invest in South Africa.

6.3.4.2 Motives for starting a business in South Africa

The responses as to what motivated Chinese SMEs to start a business in South Africa are presented in this section. The questions were close-ended where the respondents were to indicate their level of agreement or disagreement based upon a seven point Likert scale, ranging from 1 being strongly disagree to 7 being strongly agree with 4 being the neutral value. The factors that motivated respondents to start a business in South Africa were divided into three main factors; economic factors, political/institutional factors and socio-cultural factors. Figure 1 below represents which of the following **economic factors** motivated them the most to come to South Africa and start a business.

Figure 6.1: Economic Factors



From figure 6.1, it is observed that most of the mean values of the different economic factors are below the neutral value of 4 and the average mean of the economic factors is 3.86. This implies that the economic factors in general did not motivate the Chinese SMEs to start a business in the RSA. Access to local markets and the availability of large market size are the only two economic factors that had a positive influence on the decision of Chinese SMEs to start a business in South Africa. This therefore implies that the primary economic motives for the Chinese SMEs investing in the RSA are to access the local market and to take advantage of South Africa's market size. Availability of natural resources and bad business environment in China were

regarded as the least economic factors that motivated the Chinese SMEs to come to South Africa. The "bad business environment in China" economic factor which is more of a push factor for FDI did not motivate the Chinese SMEs to start a business in South Africa, but rather the pull factors such as market size and easy access.

Table 6.14 illustrate which of the **political/institutional factors** influenced the investment decision of Chinese SMEs to start a business in the RSA. The respondents did indicate their responses on a 7-point Likert scale how these factors influence their decision to start a business in South Africa. However, in table 6.14, the 7 point Likert scale is divided in to three groups, 1-3 for respondents who "disagree", 4 for "neutral" and 5-7 for those who "agree".

Table 6.14 : Motivated Political/Institutional Factors

	Disagree	Neutral	Agree	Mean	Rank
Motivated political/ Institutional factors	1 - 3	4	5-7	3.34	
The political system is stable	28	14	46	4.39	1
The legal system	29	41	22	3.78	2
Less requirements to start a business	56	21	19	3.30	3
Easy regulations on imports	53	32	11	3.08	4
SA government provides export promotion initiatives	54	35	7	2.76	5
Easy regulations on foreign businesses	58	31	7	2.75	6

7 point Likert scale: 1-strongly disagree and 7-strongly agree

The average mean of the political/institutional factor is 3.34, well below the neutral value of 4. This means the political/institutional factors did not predominantly motivate the Chinese SMEs to start a business in SA. The stable political system is the only political/institutional factor the respondents indicated might have influenced their decision. Factors such as "easy regulations on foreign businesses" and "SA government provide export promotion initiatives" are the factors the respondents mostly disagree did not motive them to come and start a business in the RSA. This therefore shows how weak the government efforts are towards attracting FDI, especially export-oriented FDI. Table 6.15 shows to what extend the respondents agreed or disagreed with the following **socio-cultural factors** that motivated them to come and start a business in the RSA.

Table 6.15: Motivated Socio-cultural factors

	Disagree	Neutral	Agree	Mean	Rank
Motivated Socio-cultural factors:	1 - 3	4	5-7	4.03	1
The presences of good infrastructure	16	16	58	4.78	2
Influence from friends and family members in SA	16	23	55	4.63	3
Good business networks and contacts	27	31	34	4.07	4
Encouragement from Chinese businesses in SA	24	34	34	4.05	5
Gateway to other African markets	31	29	33	3.93	6
Culture of the people of SA	56	30	10	2.74	7

7 point Likert scale: 1-strongly disagree and 7-strongly agree

The average mean of the socio-cultural factors shows that they are the more important factors that motivated the Chinese SMEs to come and start a business in South Africa. This is so because they have an average mean of 4.03 which is slightly above the neutral value 4. The following socio-cultural factors "influence from friends and family members in SA" and "good business networks and contacts" which the respondent agree did motivate them, indicates that the foreign Chinese investors who are planning to invest in the RSA rely much on the information they receive from the existing Chinese businesses operating in the RSA. Therefore, it is important that South Africa should not only think about attracting potential investors but should strive to retain the existing foreign businesses so that they can always give a good recommendation about the business environment of South Africa to potential investors from their home country. Gateway to other African markets and even more specifically, the culture of the people of South Africa were the only two socio-cultural factors the respondents indicated did not motivate them to come to South Africa.

6.3.4.3 Conclusion to motives of starting a business in the RSA

From figure 6.1 it is noticed that the economic factors were not the prime factors that motivated the Chinese SMEs owners to start up a small business in South Africa as the economic factors had an average mean of 3.86, which is below the neutral value 4. Comparing the average mean in figure 1 with that of table 6.14 and table 6.15, it is clear that the Chinese SME owners consider the socio-culture factors as more important to them in deciding to come and start a small business in the RSA. The political/institutional factors were the least considered. Also, looking at

the individual motivational factors, it is seen that availability of a large market size (4.92) and access to local markets (4.81) are the most important economic factors that motivated the Chinese SMEs owners to start a business in South Africa. Hence, this could be attributed to the fact that majority of the Chinese SMEs are in the retail/wholesale business (41%). According to Dunning (1993:56), foreign investments whose motives to invest are to seek access to local markets and markets size are known as market-seeking or market-oriented FDI. Therefore, the motive for most of the Chinese SMEs investing in SA is market-oriented. The least important factor here is the availability of natural resources with the lowest mean of 2.71.

On the other hand, socio-economic factors such as "presences of good infrastructure" and "influence from friends and family members in SA" also had a good number of respondents who agreed that these factors did influence their decision to invest in the RSA. Easy regulations on foreign businesses, culture of the people of South Africa and availability of natural resources had the least number of respondents with 58, 56 and 53 respectively who said the three factors did not motivated them to start a business in the RSA.

To sum up, the results shows that most of the Chinese FDI that have been attracted to the Free State are the market-oriented FDI (which are not the best) instead of attracting resource-seeking or export-oriented FDI, which have a more positive productive effect on the economy growth and development of a country. However, the few export-oriented Chinese SMEs attracted to South Africa are still the main businesses expressing their regrets of investing and are more inclined to leave South Africa. This is not a good sign for South Africa's economic growth as these are the foreign businesses needed to increase employment, reduce poverty, reduce income inequality, improve the trade balance of payment and boost economic growth. Also, these existing export-oriented businesses are capable of referring more potential FDI to come to invest in the RSA as most of the Chinese SMEs in the Free State made their decision to start a business in South Africa by consulting friends, family members or existing businesses in South Africa.

6.3.5 Analysis of service performances

This section explains how the respondents feel and rate the overall performance of the provincial and national services. It will also show how the respondents, on a five point Likert scale, rate the government support and effectiveness on some of its services in the business environment. The results on how the respondents rate the provincial, national and government services will be

displayed using a 5 point Likert scale ranging from 1for very poor to 5for very good, with a mean value of 3 as the average value. Table 6.16 demonstrates how the respondents rate the overall performance of the **provincial services**, ranking them in order of performance i.e. from the highest to the lowest performance.

Table 6.16: Performance rate of some provincial services

	Mean	Rank
Provincial performance factors:	3.23	
Road infrastructure	3.92	1
Water supply and quality	3.86	2
Electricity supply	3.60	3
Procedure to start a business	2.79	4
Sanitation	2.60	5
Service delivery by municipality	2.59	6

5- point Likert scale: 1-very poor and 5-very good

From table 6.16, the respondents indicated that they see road infrastructure (3.92), water supply and quality (3.86) and electricity supply (3.60) as reasonably positive, while procedure to start a business (2.76), sanitation (2.60) and service delivery by municipality (2.59) as relatively poor. Road infrastructure is consider to be the best with a mean of 3.92 while service delivery by municipality is seen as the worst with the lowest mean of 2.59. Table 6.17 illustrates how the respondents rate the overall performance of some of the **national services.**

Table 6.17: Performance rate of some national services

	Mean	Rank
National performance factors:	2.89	1
Telecommunication network	3.60	2
Internet accessibility	3.47	3
Public transportation services	2.96	4
Technological developments	2.85	5
Harbours and Rail	2.78	6
Exports and Imports/Customs	2.61	7
Security	1.93	8

5- point Likert scale: 1-very poor and 5-very good

The performance of the national services mentioned in table 6.19 were overall rated by the respondents as poor (average mean of 2.89), with telecommunication network (3.60) and internet

accessibility (3.47) the only national services rated above the average value of 3. The other national services were rated by the respondents as performing poorly, with security being the worst (1.93). The respondents rating security as performing poorly confirm earlier why most of the Chinese SMEs who said they will not invest again in the RSA cited crime as their main reason. This therefore implies that crime is a problem in the business environment of South Africa as existing foreign businesses are willing to leave. Table 6.18 shows the result of how the respondents rate **government support** and effectiveness of some of its services it provide in the business environment using a 5 point Likert scale ranging from 1for very poor to 5for very good, with a mean value of 3 as the average value.

Table 6.18: Performance rate of government services

	Mean	**Rank**
Government effectiveness on services	2.43	
Political stability	3.56	1
Tax and tax administration	2.94	2
Business entry restrictions	2.76	3
Issue of business license	2.74	4
Rule of law	2.67	5
Start-up procedure for a business	2.59	6
BEE policy	2.50	7
Municipality services	2.47	8
Custom services	2.42	9
Efficiency of government departments	2.26	10
Visa and work permits Issuance	2.24	11
Control of xenophobia attacks	2.07	12
Control of corruption	1.96	13
Fight against crime	1.66	14
Labour disputes	1.58	15

5- point Likert scale: 1-very poor and 5-very good

In table 6.18, the respondents rated political stability (3.56) as the only issue the government has "good" support and control over while the other government services are been regarded as performing poorly. For instance the government's control over labour disputes is seen as very poor (1.58), likewise the fight against crime (1.66). To add, the overall performance of government services with regard to doing business in South Africa are noted by the Chinese SMEs as poor as the average mean is 2.43. This therefore implies that government is not doing

their best to improve their performances on these services hence, causing these services to deteriorate the investing climate in South Africa.

6.3.6 Perception about xenophobia and business ethics in South Africa.

This section examines the respondents' attitude toward xenophobia and how they perceive the business ethics in South Africa. Also, this section will display how respondents perceive the overall procedure of starting a business in the RSA. Before looking at how they perceive xenophobia and business ethics in South Africa, they were asked whether their businesses have ever suffered from xenophobic attacks, crime or lost business because of the BEE policy. Table 6.19 gives the result of whether they have experienced xenophobic attacks or crime or lost business because of the BEE policy.

Table 6.19: Business suffered from xenophobic attack, crime and BEE policy

	Number	**%**
Business experience xenophobic attacks	11	11%
Business suffered from crime	83	86%
Lost business because of the BEE policy	19	20%

The result shows that most of the Chinese SMEs have suffered from crime. However, the majority of the Chinese SMEs that have suffered from crime are in the retail/wholesale (33) and manufacturing sector (31) while Chinese SMEs that have experience xenophobic attacks are mostly in the manufacturing sector (6). Table 6.20 below presents these results.

Table 6.20: Business suffered from xenophobic attack, crime and BEE policy with respect to type of business sector

	Manufacturing		**Retail/ Wholesale**		**Others**		**Total**	
	Number	%	Number	%	Number	%	Number	%
Lost business because of BEE policy	10	53%	5	26%	4	21%	19	100%
Business suffered from crime	31	37%	33	40%	19	23%	83	100%
Business experience xenophobic attacks	6	55%	5	45%	0	0%	11	100%

Table 6.20 also cited that 10 Chinese SMEs that have lost business because of the BEE policy were in the manufacturing sector as against only 5 in the retail/wholesale sector. These results go further to comprehend how disgruntled the manufacturers are with regard to their decision to invest in South Africa as the majority of those who suffer from crime or xenophobic attacks or lost business because of the BEE policy are in the manufacturing sector. This therefore portrays a major problem in the South African business environment as the manufacturing businesses are the ones to keep happy and likewise attract more of them.

6.3.6.1 Analysis of respondents' attitude towards xenophobia

Concerning the Chinese SMEs owners' attitude towards xenophobia, the following questions were asked: "which statements do you agree or disagree with regard to local and foreign nationals?" The questions were of a close-ended nature where the level of agreement or disagreement were based upon a 7 point Likert scale ranging from 1for strongly disagree to 7for strongly agree. The responses to this question are shown in table 6.21where the 7-point Likert scale has been divided into 3 groups (1-3 for respondents who "disagree", 4 for "neutral" and 5-7 for those who "agree") so that one can determine the number of respondents who were negative, neutral or positive about a particular statement.

Table 6.21: Perception towards Xenophobia

	Disagree	Neutral	Agree	Mean	Rank
Interaction between local & foreign national	1 - 3	4	5-7	4.40	
South Africans believe you are taking their business opportunities	14	19	60	5.21	1
South Africans too reluctant to start their own business	10	18	60	5.15	2
South Africans like buying from you	7	30	53	4.80	3
Government departments discriminate against foreign nationals	16	27	50	4.67	4
Other African nationals are friendly	15	25	48	4.63	5
Other African nationals are willing to do business or transactions with you	15	33	44	4.40	6
South Africans have no good feelings about your business activities	26	29	32	4.40	7
South African businesses are willing to do business or transactions with you	25	25	44	4.32	8
South Africans are generally welcoming to foreign nationals	54	24	17	3.35	9
South African businesses like competing with foreign businesses	55	28	11	3.11	10

7 point Likert scale: 1-strongly disagree and 7-strongly agree

From table 6.21, it can be acknowledged that a total of 60 respondents agree with these two statements, “South Africans believe you are taking their business opportunities” and “South Africans are too reluctant to start their own business”. The statement “South Africans believe you are taking their business opportunities” can be seen as one of the reasons for the xenophobic attacks in March 2008 in South Africa, as explained by the Mail & Guardian online news. Mail & Guardian online (2008) mentioned that the perception of the South Africans who were responsible for the xenophobic attacks in 2008 had the notion that foreigners were taking their jobs, welfare and business opportunities. This therefore is in accordance to the fact that most respondents (60) agreed to the statement “South Africans believe you are taking their business opportunities”.

Also, according to the GEM (2008:4), South Africa’s TEA (early stage entrepreneurial activity) rate of 7.8% was seen to be below the average rate (10.6%) of all participating countries, significantly lower than the average for all efficiency-driven economies (11.4%) as well as the average for all middle to low income countries (13.2%). This indicates that SA’s rate to carry out entrepreneurial activities is very low especially if compared to its stage in the economic development. It is estimated that SA’s stage of economic development should have a TEA rate that is almost double its actual rate of 7.8 (13%). For this reason, one can justify why 60 respondents agree that South Africans are too reluctant to start their own business.

Other statements such as “South African businesses like competing with foreign businesses” and “South Africans are generally welcoming to foreign nationals” were the statements with the least number of respondents (11 and 17 respectively) saying they agree. This implies 55 and 54 respondents disagree with the statements respectively, confirming the potential for future xenophobia actions.

6.3.6.2 Respondent perception about business ethics in South Africa

The result of table 6.22 illustrates what the respondents think about the business ethics in South Africa. The respondents were provided with a diversity of ethical statements for them to indicate their level of agreement or disagreement about the ethics of doing business in SA. The results were obtain from a 7 point Likert scale ranging from 1-strongly disagree to 7-strongly agree and the neutral value being 4. The ethical statements were divided into two aspects; those that are

generally perceived as positive in most business societies and those that are perceived as negative.

Table 6.22: Respondent perception about business ethics in SA

	Disagree	Neutral	Agree	Mean
Ethics of business	1 - 3	4	5-7	4.50
Positive ethical aspects / statements				3.94
Sound ethics is good for business in the long run	3	13	70	5.75
Business managers have high ethical standards	29	35	31	4.13
Businesses do strictly follow legal and ethical standards	38	25	32	3.91
South Africans practice the belief of "ubuntu" or they do care for one another	51	25	20	3.43
The legal system punish unethical behaviour	57	26	11	3.24
South Africans are honest	56	26	14	3.22
Negative ethical aspects / statements				5.06
Workers steal from you	11	6	72	5.53
Most people in public offices are not really interested in the problems of foreigners	9	15	66	5.15
Customers try to steal from you	21	17	52	4.95
Bribery is common in business transactions	20	29	44	4.63

From table 6.22, the average mean value of the positive ethical statements is 3.94 while the negative ethical statements are 5.06. This implies that the respondents experienced business ethics in South Africa to be slightly poor as the average mean of the positive ethical statements were below neutral. While, on the other hand, most respondents did agree the negative ethical statements (with average mean of 5.06) were common in the business society in South Africa.

Also it is noticed that “Sound ethics is good for business in the long run” is the only positive ethical statement with most respondents (70) agreeing, while the rest of the other positive statements, most respondents are either neutral or did disagree they exist in the business society in South Africa. Furthermore, the negative ethical statement “Workers steal from you” is pointed out by most respondents (72) to be the most common unethical issue in the South African business environment. These responses show that the Chinese SMEs have a negative perception about the business ethics in South Africa. This is not good for nation building and also not in attracting potential investors.

6.3.7 Perception about the procedure to start a business in SA

The respondents were asked to indicate on a 5-point Likert scale ranging from 1-very difficult to 5-very easy how they perceive the overall procedure of starting a business in South Africa. Table 6.23 displays the result on how they perceive the overall procedure to start a business in the RSA.

Table 6.23 : Procedure to start a business in the RSA

	Number	%
Procedure of starting a business in SA		
Very difficult	8	8%
Difficult	30	31%
Average	43	45%
Easy	14	15%
Very easy	1	1%
Total	96	100%
Mean	2.69	

From table 6.23 it is clear that most of the respondents (45%) perceive that the procedure to start a business in the RSA as average while 39% say it is rather difficult. Table 6.24 below represents the type of business sector in association with the overall procedure of starting a business in the RSA.

Table 6.24 : Type of business sectors in association with the overall procedure of starting a business in SA

Overall Procedure	**Manufacturing**		**Retail/ Wholesale**		**Others**		**Total**	
	No.	%	No.	%	No.	%	No.	%
Very difficult	3	9%	2	5%	3	12%	8	8%
Difficult	13	39%	7	19%	10	38%	30	31%
Average	12	36%	20	54%	11	42%	43	45%
Easy	5	15%	7	19%	2	8%	14	15%
Very easy	0	0%	1	3%	0	0%	1	1%
Total	33	100%	37	100%	26	100%	96	100%

The respondents operating in the manufacturing sector perceive the procedure to start a business in the RSA to be more difficult as compared to those in the retail/wholesale who perceive the procedure to be average. Table 6.25 shows the respondents response to the overall procedure to start a business in the RSA with respect to their years of operation, number of employees and those who will or will not invest in South Africa again. There is no differences in the way SMEs with less than or equals to 6 years of operation or those with greater than 6 years perceive the procedure to start a business in South Africa. This is so as most of the Chinese SMEs, no matter how long they have operated in the RSA; perceive the procedure to be average.

Table 6.25 :Overall procedure to start a business in SA with respect to their years of operation, number of employees and those who will or will not invest in SA again

	Very difficult		**Difficult**		**Average**		**Easy**		**Very easy**		**Total**	
Years of operation	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
SMEs with ≤ 6 years of operation	2	4%	16	32%	27	54%	5	10%	0	0%	50	100%
SMEs with > 6 years of operation	6	13%	14	30%	16	35%	9	20%	1	2%	46	100%
Size of business												
SMEs with employees ≤ 10	1	3%	8	21%	22	56%	8	21%	0	0%	39	100%
SMEs with employees > 10	7	12%	22	39%	21	37%	6	11%	1	2%	57	100%
Decision to invest again												
SMEs who will invest again	4	6%	14	22%	31	49%	13	21%	1	2%	63	100%
SMEs who will not invest again	4	12%	16	48%	12	36%	1	3%	0	0%	33	100%
Activity												
Import	5	12%	19	45%	14	33%	4	10%	0	0%	42	100%
Export	1	6%	11	69%	4	25%	0	0%	0	0%	16	100%

Also, table 6.25 portrays that SMEs with less than or equals to 10 number of employees perceive the procedure to start a business in SA to be average while those with more than 10 employees perceive the procedure to be more difficult. Likewise, SMEs who stated that they will not invest again perceive the procedure to start as more difficult whereas SMEs who are willing to invest again perceive the procedure to be average. This therefore explains why they are willing to invest again if they are given the opportunity to make their decision today. Also, SMEs involve in imports or exports perceive the procedure to start a business as more difficult.

6.3.8 Analysis of major external factors impacting the business of respondents

In the earlier section 6.3.4.2, the aim was to determine what motivated the Chinese SMEs to come and start a business in South Africa with respect to the economic, political/institutional and socio-cultural factors. This section however, will examine how the major external factors impact the business of the respondents currently. In the questionnaire, the respondents were asked on a 7-point Likert scale ranging from 1-very negative to 7-very positive and 4 being the neutral point to indicate how the major external factors impact on their businesses.

This section will first focus on measuring the reliability of the major external factors by using Cronbach's alpha and then look at the responses of the respondent on how the external factor impacted their businesses. This section will then conclude by using a T-test to determine the significant difference in the mean scores of the major external factors with respect to demographics such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in the RSA. It is important to note that only the factors with significant differences will be presented in tables while the comprehensive T-test results will be presented in the appendix section.

6.3.8.1 Reliability and Cronbach's Alpha

Cronbach's Alpha was used to measure the reliability of the different external factors to ensure that the different factors do relate. Cronbach's alpha of greater than 0.7 indicate a great reliability of the data. Table 6.26 illustrate the mean scores and Cronbach's alpha of the major external factors impacting the Chinese SMEs operating in South Africa.

Table 6.26 : Scale mean and Cronbach's alpha of major external factors

Factor	Items	Mean
Major External Factors	Labour regulations	2.89
	Economic conditions	4.01
	Legal systems	3.69
	Crime	2.35
	Xenophobia	2.68
	Corruption	2.54
	Political stability	4.93
	Government regulations	3.77
	Ethics	3.84
	Infrastructure (Roads, etc)	4.85
	Average mean	3.55
	Cronbach's alpha	**0.815**

The Cronbach's alpha for the major external factor impacting the businesses of respondents is 0.815, hence signifying the reliability of the external factors.

6.3.8.2 Impact of the major external factor on respondents' businesses

The results in table 6.27 show the mean scores of how the major external factors impact Chinese SMEs. The respondent did answer the questions on a 7-point Likert scale but in table 6.27, the responses have been grouped into three parts; negative, neutral and positive. Respondents who indicated 1 and 2 were grouped as negative, 3 to 5 as being neutral and 6 to 7 as being positive. This was done in order to get a true picture of those who were negative, neutral or positive.

Table 6.27 : Impact of major external factors on respondents' businesses

	Negative	Neutral	Positive	Mean	Rank
Factors impact on your business:	1 – 3	4	5 – 7	3.55	
Political stability	17	15	53	4.93	1
Infrastructure (Roads, etc)	13	19	54	4.85	2
Economic conditions	34	23	38	4.01	3
Ethics	24	49	23	3.84	4
Government regulations	33	39	22	3.77	5
Legal systems	30	49	17	3.69	6
Labour regulations	54	33	9	2.89	7
Xenophobia	68	20	7	2.68	8
Corruption	72	20	4	2.54	9
Crime	82	4	10	2.35	10

7 point Likert scale: 1-very negative and 7-very positive

Most of the respondents distinctively indicated that political stability and infrastructure have a positive impact on their businesses. This response is actually aligned with the aspect that the majority of the respondents indicated that political stability and infrastructure did motivate them to come to South Africa. Also, the majority of the respondents indicated that corruption and crime were impacting their businesses negatively. This therefore once again shows how the government is failing to control corruption and fight crime as these issues continue to affect the running of businesses in the RSA. Moreover, as the respondents earlier mentioned that the government were not effectively addressing issues about labour disputes and xenophobia, most of the respondents were quick to point out that xenophobia and labour regulations were affecting their businesses. Thus, it is obligatory for South Africa to address the problems of labour regulations, xenophobia, corruption and crime if they want to keep the existing foreign businesses or attract more FDI.

6.3.8.3 T-test

T-test was carried out to determine the difference in the mean scores of the major external factors with respect to demographic factors such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in South Africa. Due to many data analyses, only factors with significant differences in the mean scores will be presented in the following tables. The comprehensive T-test results will be presented in the appendix section.

A. Significant difference in major external factors between SMEs with less than or equals to 6 years of operation and SMEs with more than 6 years of operation

Table 6.28 shows the significant different in the mean score of major external factors between SMEs with less than or equals to 6 years and SMEs with more than 6 years of operation. Labour regulation and legal systems are the only two major external factors impacting the businesses of the respondents that have a significant difference between the two groups.

Table 6.28 : T-test for the differences in major external factors between SMEs with ≤ 6 years and SMEs with > 6 years of operation

Factor impact on business	Mean of SMEs with ≤ 6 years of operation	Mean of SMEs with > 6 years of operation	T-test significance
Labour regulations	3.38	2.35	.001
Legal systems	3.96	3.39	.022
Average	3.67	2.87	

(Sig at 0.05; 2-tailed)

From table 6.28, both respondent groups indicated labour regulations and legal systems to be impacting their businesses negatively. However, it is noticed that labour regulations are impacting SMEs with greater than 6 years of operation (2.35) more negatively than SMEs with less than or equals to 6 years of operation (3.38). Likewise, SMEs with greater than 6 years of operation (3.39) indicated that the legal system were impacting their businesses more negatively than SMEs with less than or equals to 6 years of operation (3.96).

B. Significant difference in major external factors between SMEs with ≤ 10 employees and SMEs with > 10 employees

T-test was conducted and there were no significant differences in the mean scores of SMEs with ≤ 10 employees and SMEs with > 10employees with respect to the major external factors impacting their businesses when operating in the RSA. This therefore implies that no matter the size of the businesses operating in South Africa, they all experience similar impact from the major external factors.

C. Significant difference in major external factors between manufacturing and non-manufacturing SMEs

The T-test results in table 6.29 represents the differences in the mean scores of manufacturing and non-manufacturing SMEs with respect to the major external factors impacting their businesses when operating in South Africa.

Table 6.29 : T-test for the differences in major external factors between manufacturing and non-manufacturing SMEs

Factors impact on business	Mean of Manufacture	Mean of non-Manufacture	Total mean	T-test significance
Labour regulations	1.94	3.38	2.89	.000

(Sig at 0.05; 2-tailed)

The result shows there is a significant difference in the mean scores of the impact of labour regulations as the labour regulations are impacting the manufacturing SMEs (1.94) more seriously than non-manufacturing SMEs (3.38).

D. Significant difference in major external factors between SMEs who will decide to invest again and SMEs who will not invest again

Table 6.30 depicts the results of the T-test for differences in the mean scores of SMEs who will decide to invest again and SMEs who will not invest again with regard to the major external factors impacting their businesses in the RSA.

Table 6.30 : T-test for the differences in major external factors between SMEs who will decide to invest again and SMEs who will not invest again

Factors impact on business	SMEs who will invest again	SMEs who will not invest again	T-test significance
	Mean	Mean	
Labour regulations	3.25	2.18	.001
Economic conditions	4.25	3.55	.031
Crime	2.60	1.88	.043
Xenophobia	2.92	2.21	.014
Corruption	2.79	2.06	.004
Average	3.17	2.38	

(Sig at 0.05; 2-tailed)

The T-test results indicated that there were significant differences in the mean scores relating to labour regulations, economic conditions, crime, xenophobia and corruption. It is observed that SMEs who said they will not invest again indicated that all of these five major external factors are impacting their businesses more negatively than SMEs who said they will invest again.

6.3.9 Analysis of the external environmental factors

The previous section (6.3.8.2) focused on the extent to which the external environment impact on Chinese SMEs, while this section focuses on how the Chinese SMEs perceive the external environment of South Africa. In order for the researcher to get the respondents' feelings about the external environment in South Africa, the researcher posed several external environmental factors for the respondents to indicate how they perceive each of the factors. The respondents were to answer the questions on a 7-point Likert scale ranging from 1-very negative to 7-very positive with 4 being the neutral value. The external environmental factors were divided into four groups i.e. economic, political/institutional, socio-cultural and legal factors. Before proceeding to look at how the respondents perceive the external environment, it is important to measure the reliability of the external environmental factors which are to be used to gauge the respondents' perception of the external environment.

6.3.9.1 Reliability and Cronbach's alpha

Cronbach's alpha was used to measure the reliability of the different environmental factors under the four main groups or factors; economic, political, socio-cultural and legal factors. The essence of Cronbach's alpha is to see whether the various factors in each specific group relate to each other. Cronbach's alpha of greater than 0.7 indicate a great reliability of the data. Table 6.31 represents the mean scores and the Cronbach's alpha of economic, political/ institutional, socio-economic and legal factors and also the number of items in each of the four groups.

Table 6.31 : Mean scores and Cronbach's alpha of external environmental factors

External Factors	Items	Mean	External Factors	Items	Mean
Economic Factors	Exchange rate	4.14	**Political/ Institutional factors**	Start-up Documentation	3.75
	Inflation rate	3.23		Tax regulations	3.74
	Interest rate	3.81		Labour disputes and strikes	2.17
	Access to credit	3.63		Regulations on import of goods	3.16
	Competition	3.99		Labour unions	2.10
	Good Financial / Banking	4.85		**Average mean**	2.98
	Economic growth	4.63		**Cronbach's alpha**	**0.78**
	Taxes	3.82	**Socio-cultural Factors**	HIV/ AIDS	2.39
	Average mean	4.01		Standard of living	4.10
	Cronbach's alpha	**0.719**		Language barrier	3.46
Legal system	Confidence in the legal system	3.70		Crime	1.70
	Law enforcement	3.57		Security	2.11
	Time to get court judgments	3.07		Theft	2.01
	Courts protect the guilty	2.99		Racism	2.59
	Execution of court orders	3.49		Xenophobia	2.28
	Response from police services	3.11		Corruption	2.35
	Access to legal assistance	3.28		Bribes	2.79
	Cost of legal services	2.36		Moral ethics	3.47
	Average mean	3.20		Labour skills	3.18
	Cronbach's alpha	**0.82**		Cost of labour	3.41
				Infrastructure (Roads, etc)	4.99
				Telecommunications	4.99
				Average mean	3.05
				Cronbach's alpha	**0.803**

The Cronbach's alpha of the economic factors is 0.719. This implies the 8 items under economic factors are closely related thus indicating the reliability of the economic factors. The Cronbach's alpha for political/institutional factor was 0.669. This shows the items under political/institutional factors are not all that closely related. To improve the reliability, the item "stable government" was deleted from the grouping and this did better the Cronbach's alpha for political/institutional factors to 0.78. Hence, only five items were use to determine how the respondents feel about the political/institutional environment. Moreover, the Cronbach's alpha

for socio-cultural and legal system is 0.803 and 0.815 respectively, thus indicating the reliability of the socio-cultural and legal system factors.

6.3.9.2 Perception of the external environmental factors in the business environment

Figure 2 shows how the respondents perceive the four main external environmental factors; economic, political/institutional, socio-cultural and legal factors on a 7-point Likert scale ranging from 1-very negative to 7-very positive with 4 being the neutral value.

Figure 6.2: Perception of the External Environmental Factors

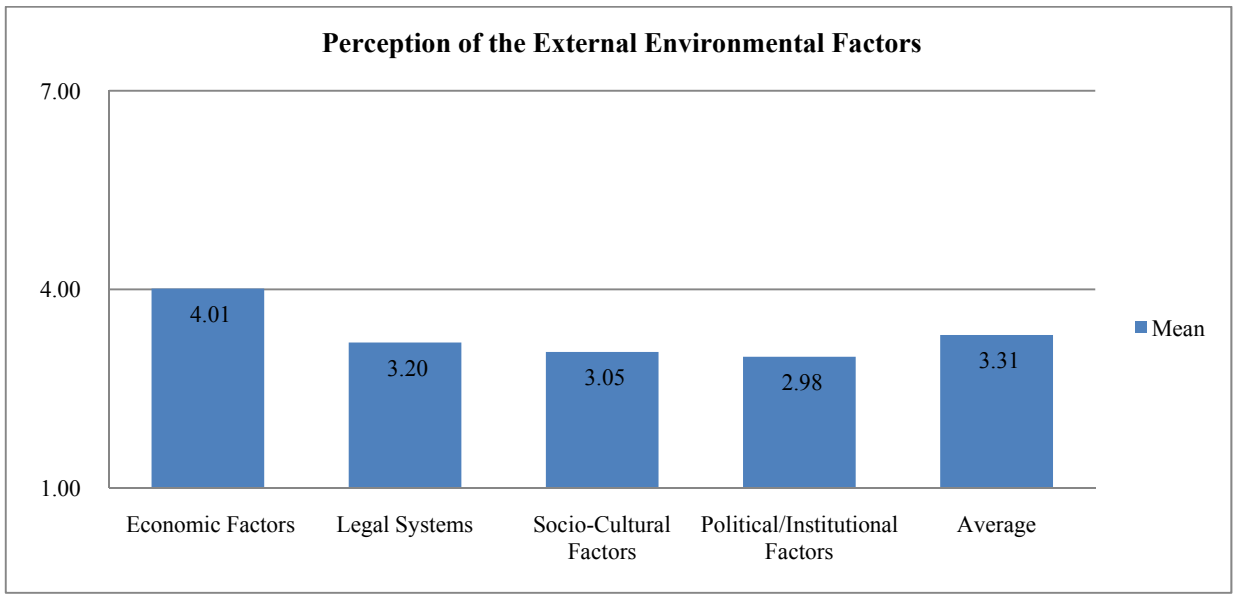


Figure 6.2 shows that the respondents perceive the economic factors to be neutral or slight positive while they perceive the political/institutional, socio-cultural and legal factors to be negative. Therefore, overall, the external environment of South Africa is been perceive as negative or poor by the Chinese SMEs operating in the Free State province. Thus, for South Africa to attract more productive FDI that will bring development and economic growth, the business environment must be made more attractive to both the existing foreign businesses and FDI. This is confirmed from previous results (see section 6.3.5.1), as it is found that Chinese SME owners consulted existing foreign businesses in the RSA for information before deciding to come and invest. Hence, it is important to keep the existing foreign businesses satisfied and improve their perception of the business environment in South Africa.

The next sections highlights how the respondents perceive the individual environmental issues under each of the four main external environmental factors; economic, political/institutional, socio-cultural and legal factors.

6.3.9.3 Perception of the economic factors in the business environment

Table 6.32 illustrates the perception of the respondents with regard to the economic factors in the business environment, with their mean ranging from 1 for very negative to 7 for very positive and 4 being the neural value. The responses were grouped into three groups; 1-3 for negative, 4 for neutral and 5-7 for positive.

Table 6.32: Perception of the economic factors in the business environment

	Negative	Neutral	Positive	Mean	Rank mean	Std Dev
Economic Factors	1-3	4	5-7	4.01		1.41
Good Financial / Banking	16	23	51	4.85	1	1.55
Economic growth	19	19	51	4.63	2	1.36
Exchange rate	32	27	36	4.14	3	1.53
Competition	32	29	33	3.99	4	1.36
Taxes	30	48	18	3.82	5	1.26
Interest rate	33	37	25	3.81	6	1.23
Access to credit	35	36	22	3.63	7	1.42
Inflation rate	57	21	18	3.23	8	1.54

7 point Likert scale: 1-very negative and 7-very positive

Most of the respondents were positive about the financial/banking system and the economic growth but were negative about the inflation rate. The World Economic Forum (WEF) through its Global Competitiveness report ranked the financial development in South Africa at 9th out of 139 countries (WEF, 2010:302). This therefore shows that the financial and banking system in South Africa is of international standards. The respondents were slightly positive about the economic growth (4.63) of South Africa. This could be attributed to the fact that until the global crisis in the late 2008, South Africa has enjoyed an unprecedented 62 quarters of uninterrupted economic growth from the first quarter of 1993 to the second quarter of 2008, with it having a historical high value of 7.6% in December 1994. Although the GDP did contract in the first and second quarters of 2009, with GDP growth at -7.4% and -2.8% respectively, it started showing potential growth in the third quarter of 2009 and has expanded at an annual rate of 3.20 in the second quarter of 2010 (Trading Economics, 2010).

Also, a small majority of the respondents (36) perceive access to credit to be neutral even though its total mean is below the neutral value 4. Furthermore, the fact that the respondents perceive the exchange rate (4.14) neutral to positive shows that they find the Rand currency to be reasonably stable. The respondents also indicated a mean of 3.99 for the competition level which implies that they are slight neutral about the environmental competitiveness of South Africa. To add, the respondents were slightly negative towards interest rate and taxes as they responded with a mean of 3.81 and 3.82 respectively. However, considering all the economic factors together, the respondents were neutral or slightly positive about the economic factors.

6.3.9.4 Perception of the political/institutional factors in the business environment

Table 6.33 shows the respondents opinion about the political/institutional environment in South Africa. The 7-point Likert scale was divided into three main categories; negative, neutral and positive. Respondents who indicated 1 to 3 were grouped as negative, 4-neutral and 6 to 7 as positive.

Table 6.33 : Perception of the political/ institutional factors in the business environment

	Negative	Neutral	Positive	Mean	Rank mean	Std Dev
Political/Institutional Factors:	1-3	4	5-7	2.98		1.53
Start-up Documentation	40	31	25	3.75	1	1.37
Tax regulations	35	44	17	3.74	2	1.07
Regulations on import of goods	53	34	8	3.16	3	1.38
Labour disputes and strikes	78	9	8	2.17	4	1.57
Labour unions	79	8	9	2.10	5	1.63

7 point Likert scale: 1-very negative and 7-very positive

Table 6.33 reveals that the respondents are having very negative perceptions about the political/institutional factors as the average mean for the political/institutional factors of 2.98, is well below the neutral value 4. For each of the five items under the political/institutional factors, most of the respondents responded negatively. These responses show that the labour market/regulations are one of the main factors hindering foreign investors in South Africa. Having a well-functioning labour market is vital in redressing the historical inequalities and to establish a vibrant and globally competitive economy. However, Clarke et al. (2007:11) commented that the labour market of South Africa is too rigid on both the hiring and firing

indices and may be interpreted as an institutional weakness. It is thus more costly and more difficult to hire and fire workers in South Africa than in most of other competitive economies.

Also, the five issues under political/institutional factors are very much under the control of the government of the RSA. Therefore, as the respondents perceive all five the factors negatively, it means that the government is not performing their services properly. Hence, this supports what was mentioned earlier that the government services were ineffective and unsupportive in providing a good environment for foreign businesses.

Furthermore, realizing a negative perception about the political/institutional environment implies that South Africa has to step up its start-up documentation processes, as well as improve its tax, export and labour regulations if it wants to attract more FDI or keep the existing ones operating in the RSA.

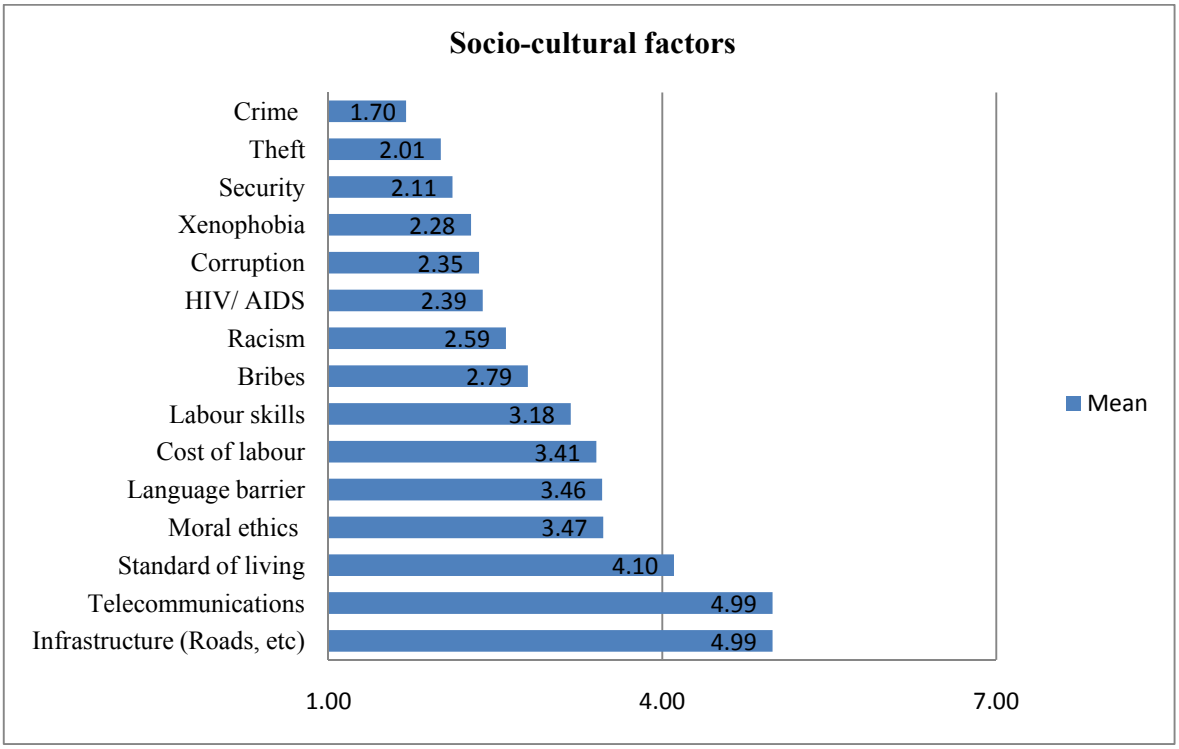
6.3.9.5 Perception of the socio-cultural factors in the business environment

This section looks at how the respondents perceive the socio-cultural factors in the external environment of the RSA. Table 6.34 and figure 3 below show how the respondents perceive the various socio-cultural factors in the external environment.

Table 6.34 : Perception of the socio-cultural factors in the business environment

	Negative	Neutral	Positive	Mean	Rank mean	Std Dev
Socio-Cultural Factors:	1-3	4	5-7	3.05		1.34
Infrastructure (Roads, etc)	12	18	56	4.99	1	1.26
Telecommunications	14	24	50	4.99	2	1.57
Standard of living	26	35	32	4.10	3	1.40
Moral ethics	43	41	11	3.47	4	1.31
Language barrier	49	25	21	3.46	5	1.66
Cost of labour	46	38	12	3.41	6	1.20
Labour skills	55	31	10	3.18	7	1.21
Bribes	67	21	8	2.79	8	1.23
Racism	72	18	6	2.59	9	1.35
HIV/ AIDS	74	20	2	2.39	10	1.14
Corruption	76	17	3	2.35	11	1.21
Xenophobia	75	16	5	2.28	12	1.43
Security	86	3	7	2.11	13	1.42
Theft	86	3	7	2.01	14	1.43
Crime	91	0	5	1.70	15	1.31

Figure 6.3: Perception of the socio-cultural factors in the business environment



A 7-point Likert scale was used, ranging from 1 for very negative value to 7 for very positive value and a mean value of 4 as the neutral value. The respondents experiences were quite different as it ranges from slightly positive for infrastructure (4.99) and telecommunication (4.99) to very negative for crime (1.70). Crime is viewed as very negative by the respondents and it had a very small standard deviation 1.31, implying how unanimously the respondents felt about crime in South Africa. Couple with this, it was earlier shown that 86% of the respondents had suffered from crime. The level of crime and violence in South Africa is very high, ranking at 137 out of 139 countries according to the Global Competitiveness report for 2010/11 (WEF, 2010:303). This confirms how severely the level of crime is impacting businesses and the quality of life in South Africa.

Theft (2.01), security (2.11) and xenophobia (2.28) were also negatively perceived by the respondents. The respondents perceive theft very negatively because most of them had experience workers trying to steal from their businesses. This is not good for the RSA as well as from the perspective of attracting more FDI. Perceiving the level of security as negative can be attributed to the fact that 86% of the respondents had suffered from crime, hence making the

Chinese SMEs to feel very insecure in South Africa. Xenophobia is nowadays a big issue in South Africa especially after the xenophobic violence in March 2008 that lead to the loss of lives and looting of many foreign businesses (Laher, 2009). This situation must have had an influence on the Chinese SMEs to feel the external environment of South Africa to be xenophobic.

Language barrier (3.46) was perceive as slightly negative but it had the highest standard deviation of 1.66 implying that the respondents were inconsistent on how they perceive the issue of the language barrier. On the contrary, racism had the smallest standard deviation of 1.35 and the majority of respondents perceive racism to be negative (2.59) thus indicating that the respondents were consistent on how they perceive the issue of racism.

On the whole, most of the issues in the socio-cultural environment were perceive as negative. As a result, the average mean of the socio-cultural factors was 3.05, implying that the socio-cultural environment in South Africa was perceive by the Chinese SMEs as negative.

6.3.9.6 Perception about the legal system in the business environment

Table 6.35 represents how the respondents feel about the legal system in the external environment of South Africa.

Table 6.35: Perception about the legal system

	Negative	Neutral	Positive	Mean	Rank mean	Std Dev
Legal Systems:	1-3	4	5-7	3.20		1.41
Confidence in the legal system	42	18	34	3.70	1	1.51
Law enforcement	43	25	25	3.57	2	1.47
Execution of court orders	50	26	19	3.49	3	1.33
Access to legal assistance	47	30	19	3.28	4	1.46
Response from police services	60	20	16	3.11	5	1.42
Time to get court judgments	56	34	5	3.07	6	1.28
Courts protect the guilty	60	24	12	2.99	7	1.55
Cost of legal services	73	20	3	2.36	8	1.23

7 point Likert scale: 1-very negative and 7-very positive

From table 6.35, the respondents perceived the legal system as negative as all the mean values of the factors listed under the legal system were perceived negatively by the respondents. This ranges from confidence in the legal system (3.70) to cost of legal services (2.36). Also, in terms of number of responses, most of the respondents were negative to all the issues relating to the

legal system. The issue of "cost of legal service" had the highest number of respondents (73) who were negative about the issue. This shows that most of the respondents feel the legal services are expensive and difficult to get. The respondents also had negative feelings about the time to get court judgement (3.07) and the courts protect the guilty (2.99). This implies the courts in the RSA are ineffective as they are slow to give judgements and are perceive of not taking had decisions on criminals.

To conclude, one could see from the average mean of the four major groups that the respondents perceive three of the major groups/ factors as negative and perceive the other one as neutral. That is, they perceive political/institutional factors (3.31), socio-cultural factors (3.05) and legal systems (3.20) as negative while the economic factors (4.01) are perceive as neutral. Also, with regard to the individual factors, infrastructure and telecommunications were the external factors perceive as most positive while crime, theft and labour union were perceive the least negative.

The next subsection will present the T-test results of the differences in the mean scores of the external environmental factors with respect to some demographic factors such asyears of operation, number of employees, type of business sector and SMEs who will or will not invest again in the RSA.

6.3.9.7 T-test

T-test were used to test whether there were significant differences in the mean scores of the external environmental factors with regard to demographics such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in the RSA.It is important to note that only the factors with significant differences are presented in the T-test tables below as the detailed data analyses are too cumbersome (refer to appendices for the comprehensive data analysis).

A. Significant difference in the perception of external environmental factors between SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

The T-test was used to measure the significant difference in the perception of external environmental factors of SMEs with less than or equal to 6 years of operation and SMEs with more than 6 years of operation. Table 6.36 presents the results of the T-tests between the two

groups. From a total of 36 external environmental factors, only two factors had a significant difference in the mean score between the two groups.

Table 6.36: T-test for the differences in the perception of external environmental factors between SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

External environmental Factors	SMEs with years of operation ≤ 6	SMEs with years of operation > 6	T-test significance
Labour disputes & strikes	2.52	1.78	.019
Cost of labour	3.66	3.13	.030

The result shows that both groups perceive labour disputes & strikes, and the cost of labour to be negative. However, SMEs with more than 6 years of operation (1.78) perceive the labour disputes and strikes more negatively than SMEs with less than or equal to 6 years of operation (2.52). Similarly, cost of labour was perceive more negatively by SMEs with more than 6 years of operation (3.13) than SMEs with less than or equal to 6 years of operation (3.66). This could be explained as it was observed that Chinese SMEs that have stayed for more than six years tend to employ more people thus they are inclined to experience more labour disputes &strikes, and are exposed to the rigid labour regulation of South Africa. Hence, SMEs with > 6 years of operation are more likely to perceive these issues more negatively than SMEs with ≤ 6 years of operation.

Furthermore, the results imply that the longer the respondents operate in the RSA, the higher the possibility for them to encounter labour dispute & strike and higher cost of labour. Such a trend is not good for encouraging long-term foreign businesses because the foreign businesses may decide to exit the country early if such problems continue to grow. South Africa has to ensure the foreign businesses operate for long in country if it wants to benefit from positive FDI spillovers.

B. Significant difference in the perception of external environmental factors between SMEs with ≤ 10 employees and SMEs with > 10 employees

Table 6.37 presents the result of the T-test carried out to determine the significant difference between SMEs with ≤ 10 employees and SMEs with > 10 employees with regard to their perception about the external environment.

Table 6.37: T-test for the differences in the perception of external environmental factors between SMEs with≤ 10 employees and SMEs with > 10 employees

External Factors	Mean of SMEs with ≤ 10 employees	Mean of SMEs with > 10 employees	T-test significance
Competition	3.41	4.39	.000
Tax regulations	4.00	3.56	.048
HIV/ AIDS	2.67	2.19	.044
Language barrier	2.92	3.82	.008
Average mean	3.25	3.49	

(Sig at 0.05; 2-tailed)

Table 6.37 illustrate that there was a significant difference in the perception between SMEs with ≤ 10 employees and SMEs with > 10 employees with respect to the following four external factors; competition, tax regulation, HIV/AIDS and language barrier. This implies that SMEs with 10 or less employees view competition, tax regulation, language barrier and HIV/AIDS differently as compared to SMEs with more than 10 employees. To further explain, SMEs with ≤ 10 employees perceive competition (3.41) and language (2.92) more negatively than SMEs with > 10 employees. Also, SMEs with > 10 employees perceive tax regulations (3.56) and HIV/AIDS (2.19) more negatively than SMEs with ≤ 10 employees.

However, much of the significant differences were with respect to competition and tax regulation as the other two (HIV/AIDS and language barrier) were perceive negatively by both size groups. SMEs with ≤ 10 employees perceive competition (3.41) as negative while SMEs with > 10 employees perceive competition as slightly positive (4.39). This means that the bigger Chinese businesses feel that the external environment of SA is fairly competitive both locally and internationally while the smaller businesses perceive the situation the other way round. Also, SMEs with > 10 employees perceive tax regulations (3.56) negatively while SMEs with ≤ 10 employees feel neutral towards tax regulation (4.00). This means the bigger businesses are faced with higher taxes and could hinder them from expanding or could influence them to exit the RSA. If the bigger foreign businesses exit as a result of higher taxes, they will leave the RSA with more unemployment issues.

The average mean show that SMEs with ≤ 10 employees perceive these four factors more negatively than SMEs with > 10 employees.

C. Significant difference in the perception of the external environmental factors between manufacturing SMEs and non-manufacturing SMEs

The T-test was used to determine if there were significant differences in the mean scores of manufacturing and non-manufacturing SMEs with regards to the external environmental factors. Table 6.38 shows the mean values for the measures of external environmental factors for manufacturing and non-manufacturing SMEs and the significance of the T-test (refer to the appendix for the complete results).

Table 6.38: T-test for the differences in the perception between manufacturing and non-manufacturing SMEs with regard to the external environmental factors

External Factors	Mean of Manufacture	Mean of non-Manufacture	Total mean	T-test significance
Access to credit	4.27	3.29	3.63	.000
Competition	4.48	3.73	3.99	.009
Cost of labour	2.94	3.65	3.41	.005
Response from police services	2.58	3.40	3.11	.002
Access to legal assistance	2.82	3.52	3.28	.023
Average mean	3.42	3.52	3.48	

(Sig at 0.05; 2-tailed)

The results of the T-test in table 6.38 indicate that there were significant differences in the mean scores of access to credit, competition, cost of labour, response from police services and access to legal assistance between manufacturing and non-manufacturing SMEs. Manufacturing SMEs were positive about access to credit (4.27 versus 3.29) and competition (4.48 versus 3.73) while non-manufacturing SMEs were negative about these issues. The manufacturing SMEs feel they could easily have credit as they probably have collateral to help them access credit.

The manufacturing SMEs perceive cost of labour (2.94), response from police services (2.58) and access to legal assistance (2.82) more negatively than non-manufacturing SMEs. The manufacturing SMEs negative perception about cost of labour means they are unsatisfied about the labour regulations (high cost of labour) and could force them to relocate their businesses elsewhere hence causing a decline in the economic growth of South Africa. In addition, the unsatisfied manufacturing SMEs could discourage any potential foreign manufacturing business from investing in the RSA.

Overall, the manufacturing SMEs perceive these factors more negatively than non-manufacturing SMEs.

D. Significant difference in the perception of external environmental factors by SMEs who will decide to invest again and SMEs who will not decide to invest again

The T-test was used to find out whether there were significant differences in the perception of the external factors between the SME owners who said they will invest again in South Africa if they were to go over their decision today and those who said they will not invest again. The T-test results in table 6.39 show that there are significant differences in the perception between the two group of respondents about the following external factors; competition, start-up documentation, labour disputes and strikes, labour unions, cost of labour, law enforcement, execution of court orders and response from police.

Table 6.39: T-test for the differences in the perception between SMEs who will decide to invest again and SMEs who will not decide to invest again

External Factors	Mean of SMEs who will invest again	Mean of SMEs who will not invest again	T-test significance
Competition	3.76	4.42	.023
Start-up Documentation	4.00	3.27	.013
Labour disputes & strikes	2.49	1.55	.002
Labour unions	2.37	1.61	.014
Cost of labour	3.60	3.03	.026
Law enforcement	3.83	3.09	.019
Execution of court orders	3.78	2.94	.001
Response from police services	3.37	2.64	.016
Average mean	3.40	2.82	

(Sig at 0.05; 2-tailed)

The results in table 6.39 shows that the mean value of the external environmental factors (except for competition) for SMEs who said they will not invest again were lower than that of the other respondent group. SMEs who said they will not invest again had a very low mean values for labour disputes & strikes, and labour unions. This therefore implies that the Chinese SMEs who regret their decision to invest see labour union and strikes as major obstacles for their business operation. This is further supported as labour union and strikes were their second reason (after crime) for not willing to invest again in SA (see section 6.3.4).

Moreover, competition and start-up documentation are the two external factors with a significant difference between the two groups. SMEs who are willing to invest again perceive start-up documentation to be neutral (4.00) while SMEs who are not willing to invest again perceive start-up documentation negatively (3.27). Similarly, SMEs who are willing to invest again perceive competition negatively (3.76) while those not willing to invest again perceive competition slightly positive (4.42).

The average mean indicates that SMEs who are not willing to invest again have a more negative feeling towards these external factors as compare to SMEs who are willing to invest again. Table 6.39 also clearly indicates which factors in the external impact most severely on their decision why they would not start their business all over again.

The next section will present the T-test results of the significant difference in the mean scores of the four main external environmental factors (economic, political, socio-cultural and legal factors) with regard to demographics such as years of operation, number of employees, type of business sectors and SMEs who will or will not invest again in the RSA.

6.3.9.8 T-test for the difference in mean scores of the four main external environmental factors with respect to demographics

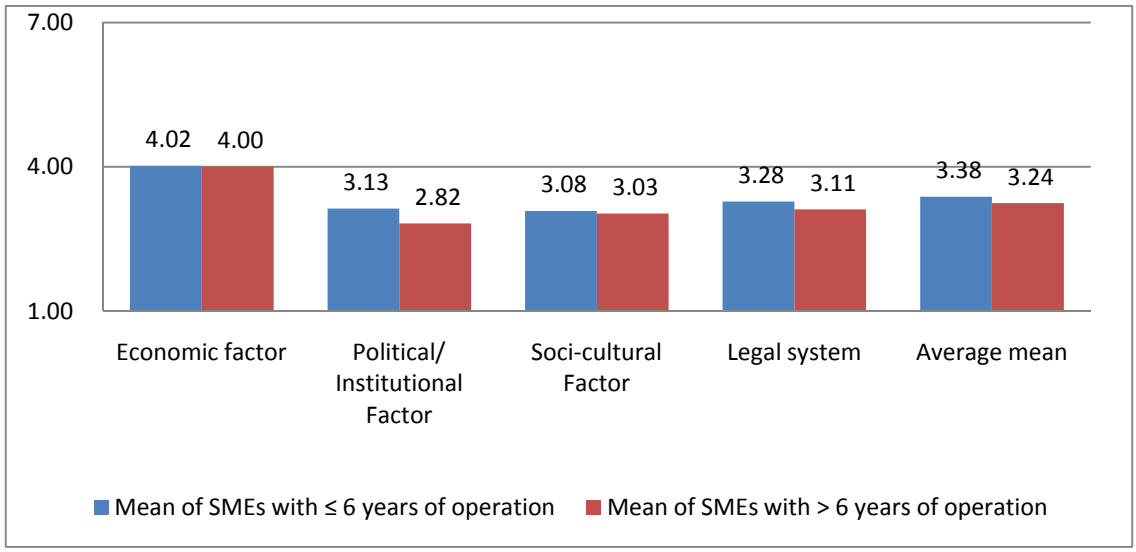
The previous section showed the T-test results for the differences in the mean scores of the 36 individual external environmental factors with respect to the demographics, but this section will present the T-test result that determine the difference in the mean score of the four main external environmental factors (economic, political, socio-cultural and legal factors) with respect to demographics such as years of operation, number of employees, type of business sectors and SMEs who will or will not invest again in SA. Due to many data analysis, only factors with significant differences in the mean scores will be presented in the tables. The complete T-test results will be presented in the appendix section.

A. Differences in mean score of SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

Figure 4 presents the differences in the mean scores of SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation with respect to the four main environmental factors; economic,

political, socio-cultural and legal factors. The results are based on a 7-point Likert scale: 1-very negative, 7-very positive and 4-neutral.

Figure 6.4: Differences in mean score of SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

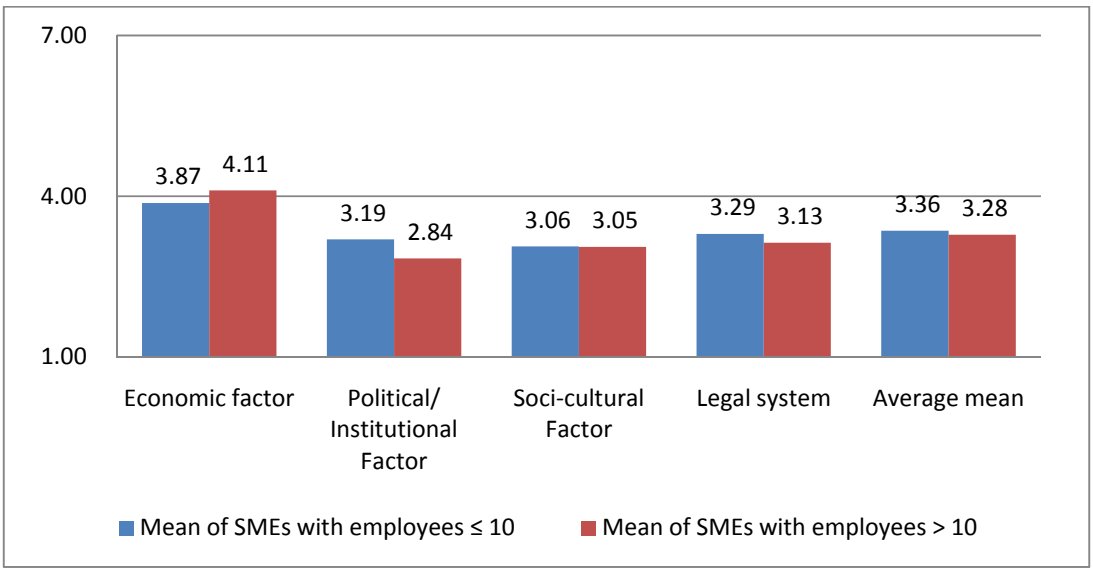


The results in figure 4 shows that both SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation perceive the economic factors to be neutral while both groups negatively perceive the political/institutional, socio-cultural and legal factors. Notwithstanding, it was noticed that SMEs who have been operating for more than 6 years perceive the political/institutional, socio-cultural and legal environment slightly more negative than SMEs with less or equals to 6 years. Overall, both groups perceive the external environment of South Africa to be negative. The T-test result indicated that there were no significant differences in the mean scores of SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation with respect to the four main environmental factors; economic, political, socio-cultural and legal factors. This therefore implies that the Chinese SMEs perceive the economic, political, socio-cultural and legal factors in the similar way, no matter how long they have been operating in the RSA.

B. Differences in mean scores of SMEs with ≤ 10 employees and SMEs with > 10 employees

Figure 5 presents the difference in the mean scores of SMEs with ≤ 10 employees and SMEs with > 10 employees with respect to the four main environmental factors; economic, political, socio-cultural and legal factors. The results are based on a 7-point Likert scale: 1-very negative, 7-very positive and 4-neutral.

Figure 6.5: Difference in the mean score of SMEs with ≤ 10 employees and SMEs with > 10 employees



From figure 6.5, SMEs with less than or equals to 10 employees perceive the four external factors negatively while SMEs with more than 10 employees perceive the economic environment positively but were negative towards the political/institutional, socio-cultural and legal factors. Nevertheless, on average, the bigger SMEs (i.e. SMEs with > 10 employees) perceive the external environment (3.28) more negatively than SMEswith ≤ 10 employees (3.36). This therefore pose a problem to the economic growth of South Africa as the bigger SMEs who are capable of increasing employment, reduce poverty, increase foreign currency and improve balance of trade, are the ones having a more negative perception about the business environment in the RSA. This implies that the bigger foreign SMEs could be on the verge of exiting the South African environment because of dissatisfaction or they do not see any prospects of it improving.

However, the T-test conducted indicated that there were no significant differences in the mean scores of SMEs with ≤ 10 employees and SMEs with > 10 employees with respect to the four main environmental factors; economic, political, socio-cultural and legal factors. This implies that, although the bigger SMEs are slightly more negative, there is no significant difference in their perception.

C. Differences in mean scores of manufacturing and non-manufacturing SMEs

Table 6.40 presents the difference in the mean scores of manufacturing and non-manufacturing SMEs withregard to the four main environmental factors; economic, political, socio-cultural and legal factors.

Table 6.40: T-test for the difference in the mean score of manufacturing and non-manufacturing SMEs

External Factors	No. items	Mean of Manufacture	Mean of non-Manufacture	T-test significance
Economic Factor	8	4.25	3.89	.042
Political/Institutional Factor	5	2.75	3.10	.112
Socio-cultural Factor	15	3.10	3.03	.655
Legal System	8	2.90	3.36	.022
Average mean		3.25	3.35	

(Sig at 0.05; 2-tailed)

The results from table 6.40 indicate that the manufacturing SMEs were positive about the economic factors (4.25) while the non-manufacturing SMEs were negative (3.89). In addition, the non-manufacturing SMEs perceive the socio-cultural factor more negatively (3.03) than the manufacturing SMEs (3.10). The manufacturing SMEs also perceive the political/institutional factors (2.75 versus 3.10) and the legal systems (2.90 versus 3.36) more negatively than the non-manufacturing SMEs. This therefore implies the manufacturing SMEs perceive the political/institutional and the legal environment of South Africa to be performing poorly more than how the non-manufacturing SMEs perceive them.

There was a significant difference in the mean scores of the economic factors and legal factors between manufacturing and non-manufacturing SMEs. But, much of the difference was in the economic factors as the manufacturing SMEs perceive the economic environment (4.25) to be positive while the non-manufacturing SMEs perceive it to be negative (3.89). This was quite

surprising, even though on average the manufacturing SMEs perceive the external environment more negatively than the non-manufacturing SMEs.

D. Differences in mean scores of SMEs who will invest again and SMEs who will not invest again

Table 6.41 shows the T-test results for the difference in the mean score of SMEs who will invest again and SMEs who will not invest again with respect to the economic, political/institution, socio-cultural and legal factors.

Table 6.41: T-test for the difference in the mean score of SMEs who will invest again and SMEs who will not invest again

External Factors	No. items	Decision to invest	Decision not to invest	T-test significance
		Mean	Mean	
Economic Factor	8	3.94	4.15	.241
Political/ Institutional Factor	5	3.18	2.61	.009
Socio-cultural Factor	15	3.08	3.00	.607
Legal Factor	8	3.40	2.81	.003
Average mean		3.40	3.14	

(Sig at 0.05; 2-tailed)

It was interesting to note that SMEs who were willing to invest again had a negative feeling towards all the four main external factors while SMEs who were not willing to invest again had a positive feeling towards the economic factors but perceive the rest of the three main factors negatively. However, the T-test results show a significant difference in the mean score of political/institutional factors and legal factors. The significant differences imply that SMEs who were not willing to invest again perceive the political/institutional factors (2.61 versus 3.81) and legal factors (2.81 versus 3.40) more negatively than SMEs who were willing to invest again. These results emphasize that those not willing to invest again in South Africa base their decision not on economic and socio-cultural factors, but on the political environment and legal systems in the country.

6.4 SUMMARY

The main objective of this chapter was to present, assess and examine the research results of the empirical study. Findings regarding Chinese SMEs perception about the external environment of

South Africa, as well as the motivational factors that influence their decision to start a business in South Africa were reported and analysed. This chapter started by explaining the difficulty to determine the population size of the Chinese SMEs operating in the Free State province. This was so because there was no organised Chinese business association to give information about the number of Chinese SMEs operating in the Free State province. To resolve this problem, the researcher used thesimple random sampling method and a non-probability snowball sampling method to determine the sample size of Chinese SMEs in the Free State province. The researcher also used the Demetra (2010) sample size calculate to support the estimated sample size of Chinese SMEs used in this study.

The response rate for this study was 65% with a total of 96 respondents. The empirical findings on demographics variables were presented using tables and figures. Cross tabulation was used to understand the relationship among the demographic variables. This chapter also presented the empirical findings on the information sources the Chinese SMEs owners used as well as what motivated them to come and start a business in South Africa. The result of the findings showed that majority of the Chinese SME owners used personal source of information (friends and family members) as their main information source when they were considering to come and start a business in the RSA. Also, the findings indicated that of the three main motivational factors, the Chinese SMEs indicated that socio-cultural factors motivated them the most to come and start a business in the RSA. Looking at the individual motivational factors, the majority of the Chinese SMEs affirmed that large market size and access to local markets motivated them to start a business in South Africa. This therefore implies that the motive for most of the Chinese foreign SMEs in the Free State is market-seeking FDI or market-oriented FDI (Dunning, 1993:56).

The chapter further presented the empirical findings on how the Chinese SMEs rate the overall performance of the service delivery, both provincial and nationally. It also presented the findings on the overall performance of government services in relation to doing business in South Africa. In addition, the findings on how the Chinese SMEs perceive xenophobia and business ethics were presented in this chapter with the majority of the respondents stating that they have suffered from crime and perceive the environment of South Africa to be xenophobic with poor business ethics.

Moreover, the chapter presented the empirical findings on how the major external factors impact on Chinese SMEs. The results showed that factors such as crime, corruption, xenophobia and labour regulations were impacting the Chinese SMEs negatively. There were also some significant differences in the mean scores of the major factors impacting the Chinese SMEs with regard to the size of the SMEs, duration of operation and the business sector type. Chinese SMEs who said they will not invest again had many factors that showed significant differences in the mean scores with respect to the Chinese SMEs who said they will invest again. Finally, the chapter presented the empirical findings on how negative or positive the Chinese SMEs feel about the external environmental factors while doing business in South Africa. The result showed that the Chinese SMEs perceive political/institutional factors (3.31), socio-cultural factors (3.05) and the legal system (3.20) as negative while the economic factors (4.01) are perceive as neutral. Significant difference in the mean scores of the external environmental factors with regards to demographics such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in SA were determined. The result showed that there were more significant differences between manufacturing SMEs and non-manufacturing SMEs as well as SMEs who will invest again versus SMEs who will not invest again.

The next chapter will present the conclusions and recommendations of the study, and will ensure that the objectives of the study are attained. Also, the limitations of the study and further areas of study will be discussed.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The purpose of this study was to investigate the motives of Chinese SMEs foreign direct investment in the Free State province (FSP) and their perception about the external business environment in South Africa.The study surveyed literature on the importance of FDI, reasons for FDI, motives for FDI and the advantages and disadvantages of FDI. The study also presented literature on the external environmental factors influencing FDI and the reasons for the low investment in Africa. The study then rounded up the literature review section by analysing the trends and globalisation of FDI, FDI in Africa and also looking at outward FDI from China. After completing the empirical research, it was possible to describe the external factors that influence the decision making of Chinese SME owners to start a business in South Africa. Also the empirical findings did depict how the Chinese SMEs perceive the external business environment in the RSA and the impact the external factors had on their businesses. From these empirical findings the study was able to conclude that most Chinese SMEs call attention to the fact that the business environment in South Africa is relatively poor, while others emphasised that they will not re invest in South Africa, if they were given the opportunity to decide today. This therefore leads the researcher to the final part of the study which involves the conclusion of result findings, recommendations, limitations of the study and proposed areas for future research. All of this will be discussed in this chapter.

This chapter is divided in to five sections which are as follows. The first section will give a conclusion of each of the chapters in the study. The second section presents possible recommendations. The third section will examine the evaluation of the objectives of the study. The fourth section will look at the limitations of the study. The fifth section will highlight possible areas for further study.

7.2 CONCLUSIONS

The conclusions of the chapters are discussed and reviewed within the context of the primary and secondary objectives of the study. This study consist of the following seven chapters; introduction to the study, importance of FDI, external environment of FDI, FDI in Africa and

outward FDI from China, research methodology, research results and conclusions and recommendations. These chapters are briefly summarized below.

7.2.1 Introduction to the study

The main purpose of this study was to investigate the motives of Chinese SMEs for investing in the Free State province and their perception about the external business environment of South Africa. The study did determine whether the motives of Chinese SMEs investing in the Free State were driven by supply (resource) based driven factors or market driven factors. The aim of the supply based driven motive is to acquire some particular resources at a lower cost than at home. It is broadly assumed that for the African countries these resources consist primarily of natural resources and cheap labour which could lead to 'relocation' and increasing (re)imports from the host country. This type of investment is also efficiency seeking as it usually takes place using labour and natural resources, thus intensive sectors. The aim of the market driven motive, on the other hand, depends on the expectation of new sales opportunities. Market based investment is often influenced by strategic considerations too. Such investment usually creates additional exports of inputs such as machinery and intermediate goods/final goods to the related foreign affiliate. Also this market based investment is to gain an important stake in the foreign market over the long run (Kurz And Wittke, 1997).

This study also focuses on how to improve the external business environment of South Africa so that more productive FDI are attracted to boost the economic growth and development of South Africa. Gama (2004:61) pointed out that although developing countries have become more proactive in promoting themselves as viable investment destinations; it does not guarantee the right type of foreign direct investment.The South African government has endeavoured to create a stable environment for foreign direct investment with various policy amendments. This is a step in the right direction. However, in its quest to address the ills of the apartheid era and to `level the playing fields', the government has adopted certain policies that tend to keep investors away. However, certain measures are necessary to readdress imbalances created in the past, but it seems that the right to regulate the economy in the national interest may clash with the desires and expectations of investors (Gama, 2004:62).

Also, with major issues such as high levels of poverty, income inequality and unemployment impacting the economic growth of South Africa (World Bank, 2008b), one of the ways of

solving these issues or challenges to the economic development is to introduce more FDI or foreign SMEs. According to Musila and Sigue (2006:579), attracting more foreign SMEs will yield more positive spillovers than MNEs or TNCs as foreign SMEs are more capable in attracting efficient and marketing-seeking FDI that can create radical innovations, create jobs, and improve local market competitiveness and technological skills. Hence, foreign SMEs might provide a solution to many of these development challenges.

Understanding the motives of Chinese SMEs operating in the Free State province and their perception about the external business environment of South Africa, will be vital in improving the business environment and thus, attracting more foreign SMEs. This therefore leads the study to the following secondary objectives;

- Examine the various motives of FDI.
- To review the advantages and disadvantages of FDI.
- To investigate what motivated the Chinese SMEs to invest in the FSP.
- To investigate the impact of the business environmental variables on Chinese SMEs operating in the FSP.
- To examine how the Chinese SMEs perceive the external environment of South Africa.
- To ascertain the perception of xenophobia amongst Chinese SMEs.
- To assess how the Chinese SMEs perceive the ethics of doing business in SA.

7.2.2 Conclusions regarding the literature review

The conclusion to the literature reviewed on the importance of FDI (chapter two), external environment of FDI (chapter three), as well as the FDI flow in Africa and outward FDI from China (chapter four) are discussed in this section.

7.2.2.1 Importance of FDI

Chapter two presented the argument of the advantages and disadvantages of FDI. It also examined the reasons for FDI, the motives for FDI, the various forms of FDI and FDI by SMEs. This chapter analyses the existing literature to establish the motives of FDI and forms of FDI that can improve the economic development of South Africa and Africa at large. Most of the literature suggested that attracting supply-based or export-oriented FDI would help expand the economic growth and development in SA faster as it is capable of creating jobs, reduce income

inequality, reduce poverty, develop technical and managerial skills, improve the balance of trade and increase foreign currencies.

Most African governments are now more enthusiastic about attracting export-oriented FDI as it is believed that export-oriented FDIs are unlikely to cause conflict between the private benefits to the investor and the social benefits to the country. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI.

The Greenfield form of FDI is also important for economic development as it can create new production capacity and jobs, transfer technology and know-how, increase investments in research and development, increase capital investments formation and stock productive capital in South Africa.

7.2.2.2 External environment of FDI

In chapter three the external environment for FDI was examined. This chapter evaluated the various external environmental factors influencing FDI and the reasons for low FDIs in Africa. This chapter further explained possible ways to improve the investment environment of Africa and also explained various factors affecting the investment climate of South Africa. The investment environment is made up of many location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. These factors include political, economic, socio-cultural and legal factors, and government regulatory policies. The essence of this chapter was to use literature to determine environmental factors that will attract more FDI to South Africa and Africa.

Some of the reasons for low investments or lack of a favourable investment climate in Africa is because most African countries still have high tax irregularities, high corruption, inefficient government bureaucracy, huge entry procedures, political instability and an inadequate infrastructure. Although most African countries are gradually improving the regulatory environment and policies that were not conducive in attracting FDI, they still have to speed up the process as they have to compete with a variety of well established conducive investment destinations.

For Africa to improve its investment climate, it has to have a favourable FDI regime and competitive factors of production. A favorable FDI regime requires a stable, efficient, and service-oriented environment that welcomes investors into most economic activities without discrimination. Modern legal and intellectual property rights, effective competition policies, a strong judiciary and minimum bureaucratic harassment are all important to attract foreign investors. The competitive factors of production are the crucial determinants of FDI as they no longer mean just cheap raw labour and basic infrastructures. Today they require adaptable labour skills, sophisticated supplier networks and flexible institutions. Tax incentives can enhance a country's attractiveness but if other factors are unfavorable, they will be insufficient to significantly increase inflows of FDI.

Although South Africa is regarded as the economic powerhouse of Africa, leading the continent in industrial output and mineral production, and is one of the largest local markets in Africa, its international competitiveness has dropped in recent years. According to the World Economic Forum's (WEF) Global Competitiveness report for 2010/11, South Africa's environmental competitive position has dropped further down the order as it is now ranked 54thout of 139 countries as compared to its 45th position in 2009/10. This implies that South Africa's environmental competitiveness has declined. Major issues such as inefficient government bureaucracy, inadequate educated workforce, crime and theft, restrictive labour regulations and corruption are considered as the most problematic factors in the business environment of South Africa (WEF 2010:302). Therefore, for South Africa to improve its investment climate and increase its competitiveness in the global market, its government has to act urgently to enhance the performance of these issues (mention above) affecting its business environment.

7.2.2.3 FDI flow in Africa and outward FDI from China

Chapter four discussed the FDI flow in Africa and the outward FDI from China. The chapter reviewed the literature on FDI trends and globalization, the impact of FDI on economic development, and the motives of China's FDI in South Africa and Africa. FDI has been known to be in existence as far back as the 1920s and is known to have contributed significantly to the economic growth and development of most developed countries. In fact, most FDI flows in the world both originate from and destined for developed countries with the bulk of global FDI (77% in 2002) going to high-income countries of the world.

The global economic and financial crisis that started in 2008 took a toll on global FDI in 2008 as it decreased toUS$1.7 trillion in 2008 from a high value of US$2.0 trillion in 2007. The global FDI did decrease again to nearly US$1.0 trillion in 2009 from US$1.7 trillion in the previous year. However, FDI are expected to recover moderately in 2010, amid slow and unsteady recovery in the global economy. Until the financial crisis in 2008, Africa experienced six years of uninterrupted growth of FDI inflow with the FDI inflow reaching a record high of US$88 billion (R655 billion) in 2008.Nonetheless, the first quarter of 2009 indicated that the FDI inflow in Africa plummeted by roughly 67 percent year-on-year(UNCTAD, 2010).

With Africa struggling to meet the Millennium Development Goals (MDGs) by 2015, rapid progress will be required in the areas of trade, good governance and resource mobilization. In terms of mobilizing the financial resources required to meet the costs of achieving the MDGs at the global level, the general estimates range between US$30bn to over US$100bn in additional resources per year (Vandemoortele and Roy, 2004). African countries will not be able to afford such financial resources internally. However, foreign private capital inflows and especially FDI offer an attractive source of debt free financial resources to African countries. These debt free financial resources would be very essential for the African countries to achieve their MDGs as it can accelerate the growth and economic transformation (Kyaw, 2003).

The motive of Chinese's FDI in Africa is both resource-seeking and market-seeking FDI. Most of the large Chinese businesses (MNEs) invest in Africa in order to exploit Africa's abundant natural resources. The Chinese market-seeking FDI, are investing in Africa to serve the large market size and growing population of Africa.

7.2.3 Conclusions regarding the empirical findings

The conclusions to the research methodology (chapter five) and the research findings (chapter six) are been presented below.

7.2.3.1 Research methodology

Chapter five presented the research methodology of the study. This chapter discussed the research design, method of data collection, sample design, gathering the data and data analysis. The simple random sampling method and non-probability snowball sampling method were used to determine the sample size of Chinese SMEs in the Free State province. The Demetra (2010)

sample size calculator was also use to confer with the estimated sample size. Data was collected through the use of self-administered questionnaires and was entered into the Excel spreadsheet for easy understanding. After data processing, the Statistic Package for Social Science (SPSS) was utilised for data analysis. Statistical techniques used in this study are descriptive statistics, cross-tabulations and T-tests. Cronbach's alpha was used to measure the reliability of the study.

7.2.3.2 Research findings and results

Chapter six presented the research findings in the study. The conclusions on the research findings in the study are presented in this section and consist of the follows:

Response rate

- A total of 96 questionnaires out of 148 questionnaires distributed were included in this study.
- Questionnaires not considered for the study were 52, because 17 were not fully completed and 35 questionnaires were not returned at all.
- Of the total Chinese SMEs contacted, 65% participate in the study.
- The majority (64%) were in the Motheo District Municipality while the rest (36%) were in the other District Municipalities in the Free State province.

The response rates of the study showed that the study had a good regional representation of the Free State province hence the majority of the Free State areas were covered.

Demographics

- Of the 96 respondents, the majority were in the retail/wholesale sector (39%) while 34% and 27% were operating in the manufacturing and other business sectors respectively.
- The average business experience of the respondents is 8 years and 25% of the respondents had been operating for 11 or more years. This means the respondents in the study have sufficient experience of the business environment of South Africa and are more likely to give informed responses to the questions.
- 40% of the respondents had operated a business in China before with 11% still operating a business in China. Also, 19% of the respondents had operated a business in other country other than China, while 14% have other branches or businesses in South Africa.

- 52% of the respondents have been operating for 6 or less years while 48% of the respondents have been operating for more than 6 years.
- 41% of the respondent had 10 or less employees as compared to 59% who had more than 10 employees. The respondents have on average 25 employees.
- Of the respondents who were involved in the import and export activities, 44% of them were involved in the imports while 17% were involve in the export activities. Also, 13% of the respondents were both importing and exporting abroad whereas 48% were involve in either import or export activities.
- Most of the exporters are manufacturers and the majority of the larger SMEs with more than 10 employees are also in the manufacturing sector. Likewise, the majority of the respondents with more than 6 years of operation are in the manufacturing sector.

The analyses showed that the longer the Chinese SMEs stay in South Africa; the more they o employed more people. Therefore it is important that South Africa keep the foreign businesses for a longer period because they will have the tendency to increase employment. Also, it was noticed that the Chinese SMEs in the manufacturing sector were hiring the highest number of employees and had been operating in South Africa for a longer period. Thus, it is vital for the RSA to target more FDI which are in manufacturing because they tend to create more jobs and they are here for the long haul, hence reducing capital flight.

Furthermore, it is comprehended from the demographic analyses that majority of Chinese SMEs involved in import or export activities employ more people and have spend more than 6 years in South Africa. Likewise, it is noticed that majority of the Chinese SMEs carrying out import and export activities are in the manufacturing sector. Thus, attracting resource-seeking FDI or export-oriented FDI will assist the South African economy to grow as they will be able to increase employment, reduce poverty, improve balance of payment, provide a positive spillover and generates more foreign currency.

Decision to start a business again

- Majority of the respondents (66%) said they will invest again in South Africa if they were to make a decision today while 34% said they will not invest again.

- Crime (52%), labour union (27%), labour strike (15%) and cost of labour (6%) were the main reasons for the respondents who said they will not invest again.
- 61% of the respondents who said they will not invest again have been in South Africa for more than 6 years while only 39% have been for ≤ 6 years of operation.
- The bigger business i.e. the SMEs with > 10 employers (73%) make up the majority of the respondents who said they will not invest again as compared to 27% which were SMEs with ≤ 10 employees.
- The majority of the respondents who said they will not invest again were in the manufacturing sector (67%) as compared to 27% in the retail/wholesale and 6% in the other business sectors. Similarly, 67% of the manufacturing SMEs indicated that they will not invest again.
- The majority of the respondents involve in import (52%) and export (88%) activities indicated that they will not invest again in the RSA.

The results show that the majority of those in manufacturing and those involve in exporting are more dissatisfied about their decision to invest in South Africa. This is a serious problem for the RSA as the manufacturing and the exporting business are the potential set of businesses that can bring economic growth and development in the RSA.

Important information sources and motives for starting a business in SA

- Personal sources (e.g. friends and family members) were ranked the most important source of information the Chinese SMEs considered when deciding whether to come start a business in South Africa.

The results show that most of the Chinese SMEs used personal sources or referrals from existing businesses in the RSA before deciding to come and invest in the country. Therefore, it is important for South Africa not just to concentrate on only attracting new foreign businesses, but rather keep the existing businesses content satisfied because they are capable of influencing other foreign businesses to invest.

- The socio-cultural factors were the main factors that motivated the Chinese SMEs to invest in South Africa.

- Table 7.1 illustrates the motivational factors that convinced the Chinese SMEs to start a business in South Africa. The motivational factors are ranked from the most important to the least important factor.

Table 7.1: Motivational factors

Motivational factors	Main Factor	Mean	Rank
Available large market size	Economic factors	4.92	1
Easy access to local markets	Economic factors	4.81	2
The presences of good infrastructure	Socio-cultural factors	4.78	3
Influence from friends and family members in SA	Socio-cultural factors	4.63	4
The political system is stable	Political/ Institutional factors	4.39	5
Presences of sound economic policy	Economic factors	4.08	6
Good business networks and contacts	Socio-cultural factors	4.07	7
Encouragement from Chinese businesses in SA	Socio-cultural factors	4.05	8

7 point Likert scale: 1-very negative and 7-very positive

The respondent indicated that available large market size and access to local markets were the two most important factors that motivated them to invest in the RSA. This therefore implies that the motive for FDI by the Chinese SMEs was market-seeking FDI.

Attracting more of market-seeking FDI is not the best type of FDI to pursue as it has limited impact on the growth of the host economy as compared to supply or resource-based type of FDI. As mentioned earlier in the literature, resource-based FDI impacts more on the host economy growth and development as they are capable of increasing employment, reduce poverty, reduce income inequality, generate more foreign currencies, improve balance-of-payment, develop human resource, bring radical innovation, carryout research and development, transfer technological and expertise skills and even provide financial assistance in achieving the Millennium Development Goals (MDG). Therefore, the RSA needs to attract more of supply/resource-based FDI or export-oriented FDI if it wants to improve its economic growth and development.

Rating of service performances

- The respondents rated the provincial services as performing averagely (3.23) while the national services were rated as performing poorly (2.89).

- The respondents rated the performance of road infrastructure (3.92), water supply & quality (3.86) and electricity supply (3.60) as reasonably good while the procedure to start a business (2.76), sanitation (2.6) and service delivery by municipality (2.59) as relatively poor.
- Telecommunication network (3.60) and internet accessibility (3.47) were the only national services rated by the respondents as performing moderately well.
- The respondents rate the overall performance of government services with regard to doing business in South Africa as poor (2.43).
- Government control over issues such as labour disputes (1.58), fight against crime (1.66) and control of corruption (1.96) were rated very poor.

The result show that the government support services in the business environment are performing poorly and ineffectively thus deteriorating the investment environment of South Africa.

Perception about xenophobia and business ethics in South Africa

- 11% of the respondents have experience xenophobic attacks, 86% have suffered from crime and 20% have lost business because of the BEE policy.
- The Chinese SMEs had the following perception about South Africans; that South Africans believe foreigners are taking their business opportunities, South Africans are too reluctant to start their own businesses, government departments discriminate against foreign nationals, South African businesses do not like competing with foreign businesses and South Africans are generally not welcoming to foreign nationals.
- The majority of the Chinese SMEs had the following perception about the business ethics in South Africans; the legal system do not punish unethical behaviour, South Africans are not honest, workers try to steal at the business premises and most people in public offices are not really interested in the problems of foreigners.

The responses indicate that the Chinese SMEs perceive the business environment of South Africa as not friendly to foreign nationals. The xenophobic attacks in March of 2008 must have had some influence on how the Chinese SMEs perceive xenophobia in South Africa. In addition,

the responses showed that the Chinese SMEs had a negative perception about business ethics in South Africa. This is not good for nation building or in attracting potential investors.

Perception about the procedure to start a business in the RSA

- Most of the respondents (45%) perceive that the procedure to start a business in the RSA as average while 39% say it is rather difficult.
- Most of the Chinese SMEs operating in the manufacturing sector perceives the procedure to start a business in SA as difficult (39%) while those in the retail/wholesale sector (54%) or those operating in other sectors (42%) perceive the procedure to be average.
- The respondents with ≤ 10 employees perceive the procedure to start a business as average (56%) while those with more than 10 employees perceive the procedure as difficult (39%).
- Most of the respondents that said they will invest again perceive the procedure as average (49%) while those not willing to invest perceive the procedure as difficult (48%).
- Most of the respondents involve in imports (45%) or exports (69%) perceive the procedure to start a business as difficult.

They respondents emphasised that they find it difficult to start a business in the manufacturing or export-oriented investment sectors in South Africa. Therefore, the RSA have to ease the procedure for manufacturing and export-oriented investments if it wants to enhance its economic growth and development.

Major external factors impacting the Chinese SMEs

- The Cronbach's alpha for the major external factors was 0.815, signifying the reliability of the external factors.
- The Chinese SMEs indicated that on average the major external factors were impacting their businesses negatively (3.55).
- The major external factors such as crime (2.35), corruption (2.54), xenophobia (2.68) and labour regulations (2.98) were reckoned as the main factors impacting the respondents' businesses severely.

The results go to support the fact that the government is not performing well to fight against crime, control corruption and xenophobia as well as manage the labour regulations. The Chinese SMEs indicated that crime had a negative impact on their business as 86% of them had suffered from crime. With many foreign businesses and even international bodies complaining about crime in South Africa, the country has to take drastic measures to reduce crime.

Perception of the external environmental factors

- The external environmental factors were divided into four groups i.e. economic, political/institutional, socio-cultural and legal factors. The Cronbach's alpha for economic, political/institutional, socio-cultural and legal factors were 0.719, 0.78, 0.803 and 0.815 respectively.
- The Chinese SMEs perceive the external environment of South Africa to be negative (3.31). The economic factors were the only factors perceive as neutral or slight positive (4.01) while the political/institutional (2.98), socio-cultural (3.05) and legal factors (3.20) were being perceive as negative.

This therefore implies that SA has to improve its external environment not just for attracting FDI but to the existing FDI operating in the environment as they can motivate other foreign business to come and invest in South Africa.

Table 7.2 illustrate the individual factors they respondents perceived as positive in the external environment of South Africa. These factors were ranked from most positive to least positive.

Table 7.2: External environmental factors perceived positively

External Environmental Factors	Main Factors	Mean	Rank
Infrastructure (Roads, etc)	Socio-cultural Factors	4.99	1
Telecommunications	Socio-cultural Factors	4.99	2
Good Financial / Banking	Economic Factors	4.85	3
Economic growth	Economic Factors	4.63	4
Exchange rate	Economic Factors	4.14	5
Standard of living	Socio-cultural Factors	4.10	6

7 point Likert scale: 1-very negative and 7-very positive

The results highlight that only 6 out of the 36 factors in the external business environment of South Africa are being perceive positively with the factors being either socio-cultural or economic factors.

Table 7.3 presents some of the external environmental factors the respondents perceive negatively. They are rank from most negative to least negative.

Table 7.3: External environmental factors perceived negatively

External Environmental Factors	Main Factors	Mean	Rank
Crime	Socio-cultural Factors	1.70	1
Theft	Socio-cultural Factors	2.01	2
Labour unions	Political/Institutional Factors	2.10	3
Security	Socio-cultural Factors	2.11	4
Labour disputes &strikes	Political/Institutional Factors	2.17	5
Xenophobia	Socio-cultural Factors	2.28	6
Corruption	Socio-cultural Factors	2.35	7
Cost of legal services	Legal Systems	2.36	8

7 point Likert scale: 1-very negative and 7-very positive

The results in table 7.3 shows that most of the factors perceive as negative were socio-cultural factors. However, in the study (section 6.3.9.4 & 6.3.4.6) it was found that all the political/institutional factors (2.98) and legal factors (3.20) were perceived as negative, implying that the respondents are not satisfied with the political/institutional environment and are not confident in the legal system of the RSA.

Crime, theft, labour unions and security prove again that they are the most serious issues impacting negatively on the external business environment of South Africa. Therefore, South Africa has to strive to overcome these constraints if it wants to create an environment conducive for foreign businesses.

T-test for difference in the perception of external environmental factors with respect to demographics

T-tests were conducted to test whether there were significant differences in the mean scores of the 36 external environmental factors with regard to demographics such as years of operation, number of employees, type of business sector and SMEs who will or will not invest again in SA.

- There was a significant difference in the mean score of labour disputes & strikes, and cost of labour between SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation. Both groups perceived the factors as negative, but the SMEs being longer in business are more negative.
- SMEs with > 10 employees perceive tax regulations (3.56) negatively while SMEs with ≤ 10 employees feel neutral towards tax regulation (4.00).
- There were significant differences in the mean scores between manufacturing and non-manufacturing SMEs with respect to the following five external factors: access to credit, competition, cost of labour, and response from police services and access to legal assistance. To add, there were more significant differences in the mean score of access to credit and competition between manufacturing and non-manufacturing SMEs as manufacturing SMEs perceived them positively while non-manufacturing SMEs perceive them negatively.
- There were significant differences in the perception between SMEs who will invest again and SMEs who will not invest again with respect to the following external factors; competition, start-up documentation, labour disputes and strikes, labour unions, cost of labour, law enforcement, execution of court orders and response from police. SMEs who are willing to invest again perceive start-up documentation to be neutral (4.00) and competition negative (3.76) while SMEs who are not willing to invest again perceive start-up documentation negative (3.27) and competition slightly positive (4.42).
- Both the manufacturing SMEs (3.25) and the non-manufacturing SMEs (3.35) perceived the external environment of South Africa to be negative. Manufacturing SMEs were positive about the economic factors (4.25) while the non-manufacturing SMEs were negative (3.89). In addition, the non-manufacturing SMEs perceived the socio-cultural factor more negatively (3.03) than the manufacturing SMEs (3.10). The manufacturing SMEs also perceived the political/institutional factors (2.75 versus 3.10) and the legal systems (2.90 versus 3.36) more negatively than the non-manufacturing SMEs. This therefore implies the manufacturing SMEs perceived the political/institutional and the legal environment of South Africa to be performing poorly more than how the non-manufacturing SMEs perceive them.

- SMEs who will invest again (3.40) and SMEs who will not invest again (3.14), both perceived the external environment of the RSA as being negative. Also, there was a significant difference in the mean scores of political/institutional factors and legal factors between the two groups. The significant differences implied that SMEs who were not willing to invest again perceived the political/institutional factors (2.61 versus 3.81) and legal factors (2.81 versus 3.40) more negatively than SMEs who were willing to invest again. These results emphasised that those not willing to invest again in South Africa base their decisions not on economic and socio-cultural factors, rather on the political environment and legal systems in the country.

The T-test results with respect to the length of operation imply that the longer the respondents operate in the RSA, the higher the possibility for them to encounter labour dispute & strike and higher cost of labour. This could therefore cause the foreign businesses to exit South Africa early, thus preventing the country from benefiting from positive FDI spillovers which comes with long-term investments.

The T-test results with respect to the size of business showed that the bigger foreign businesses are more dissatisfied with the tax system and could hinder them from expanding or could influence them to exit the RSA, thus increasing unemployment in the country.

7.3 RECOMMENDATIONS

High levels of poverty, income inequality and unemployment are major issues impacting the economic growth of South Africa. Similarly, some of South Africa's socio-economic goals are to reduce inequalities, reduce wealth and asset gaps between rich and poor, halve unemployment by 2014 and meet the Millennium Development Goals. In order to achieve this, South Africa has to attract more FDI or foreign SMEs as they are capable of boosting economic growth and development. It was seen from the literature studies that, if South Africa attracts supply/resource-based FDI or export-oriented FDI specifically, it will enable the country to be more conducive in eradicating poverty, improve employment, reduce income inequality and wealth disparity between the rich and poor, develop technical and managerial skills, improve the balance of trade and increase foreign currencies. Therefore, the researcher recommend that South Africa should attract more supply/resource-based FDI or export-oriented FDI as this type of FDI will contribute more to South Africa's economic growth and development.

However, over the years South Africa has found it difficult to either attract these types of FDIs or provide sufficient FDIs to boost its economic growth and development. The findings in this study indicated that the perception about the external environmental factors and its impact on foreign businesses are greatly influencing the decision of foreign investors to invest in South Africa. For this reason, the following recommendations are presented to improve the external environment in the RSA.

- The SMEs who were willing to leave South Africa said crime was their main reason for wanting to leave.. Crime is seen as having a huge impact on foreign businesses operating in South Africa. The high crime rate needs to be reduced if South Africa wants to improve its external environment and attract more efficient FDI. To solve this, government can improve upon its policies by ensuring better police visibility, increase area coverage and quick response rate. It can also fight crime by making the legal system more efficient so that criminals are promptly arrested and punished.

- Labour regulations are another factor that is increasing affecting both local and foreign businesses operating in South Africa. The labour regulations in South Africa are seen to be very rigid and not flexible as it is very difficult to hire and to fire employees. It is advisable that the government do redesign its labour regulations to make it more flexible. Worth noting is that designing flexible labour regulations will not only attract FDI but will attract resource-based FDI or export-oriented FDI, which is the type of FDI South Africa is in great need of.

- Manufacturing businesses and businesses involve in exports (these are the type of business the RSA has to attract) noted that the procedure to start a business in the RSA is difficult. Therefore, the government of the RSA has to see that it ease the procedure for starting a business especially the type of businesses mentioned above.

- Government support services such as municipality services, control of corruption and efficiency of government departments were considered as performing poorly and ineffective in the business environment. To improve the investment environment, government has to ensure that its support services are efficient and that the government officials should be held accountable for any mismanagement.

- To attract more export-oriented FDI, government should provide well structured export promotion initiatives. The government should also easy regulations on foreign businesses as well as upgrades its harbours and rail transportation.

- Improvement in the legal system is needed if South Africa wants to attract more FDI. In the findings it was showed that SMEs were negative about the legal system in South Africa. To improve the efficiency of legal systems, government needs to shorten the long procedures and duration of court judgments, and reduce the cost of legal services and the accessibility of legal assistance.

7.4 EVALUATION OF THE OBJECTIVE OF THE STUDY

The success of this study is determined by the extent to which the primary and secondary objectives were achieved as presented in chapter one (see section 1.4).

7.4.1 Primary Objective

The primary objective of this study was to investigate the motives of Chinese SMEs foreign direct investment in the Free State province and their perception about the external business environment in South Africa.

7.4.2 Secondary Objectives

The following secondary objectives of the study were devised as a means to address the primary objective and are listed below together with an evaluation of its achievement:

- Examine the various motives for FDI

  Evaluation: The various motives for FDI were discussed in chapter two and they include the supply/resource-based FDI and the market-based FDI

- To review the advantages and disadvantages of FDI.

  Evaluation: A comprehensive discussion about the advantages and disadvantages of FDI was presented in Chapter two.

- To investigate what motivated the Chinese SMEs to invest in South Africa.

  Evaluation: Chapter six presented the factors that motivated Chinese SMEs to invest in the Free State province. The Chinese SMEs indicated that eight factors motivated them to

invest in the Free State province with factors such as availability of large market size and easy access of local markets being the most important factor that motivated them.

- To ascertain the perception of xenophobia amongst Chinese SMEs
  Evaluation: This objective was discussed in chapter six after an empirical finding was done to determine how the Chinese SMEs feel about xenophobia in South Africa. Most of the Chinese SMEs assert that South Africans are generally not welcoming to foreign nationals and that government departments discriminate against foreign nationals.

- To investigate the impact of the business environmental variables on Chinese SMEs operating in the Free State province.
  Evaluation: This objective was achieved in the data analysis in chapter six. The Chinese SMEs pointed out that seven out of the possible ten external environmental factors tested, did impact their businesses negatively.Crime, corruption, xenophobia and labour regulations were reckoned as the main factors impacting their business severely.

- To examine how the Chinese SMEs perceive the external environment of South Africa.
  Evaluation: The results of the empirical findings concerning the Chinese SMEs perception of the external environment of South Africa was presented and discussed in chapter six. In general, the Chinese SMEs perceived the external environment of South Africa as unfavourable for FDI with factors such as crime, theft, labour union and security perceived negatively causing the business environment of the RSA to be unattractive to FDI.

- Propose possible recommendations to improve the external environment of South Africa to become more attractive to FDI.
  Evaluation: This objective was achieved in chapter seven where possible recommendations were stated on how to create a more attractive investment environment in South Africa.

Based on the achievement of all the secondary objectives, it can be concluded that the primary objective of this study was accomplished.

7.5 LIMITATIONS OF THE STUDY

One of the limitations of this study is that it was a regional study as it focused only on Chinese SMEs operating in the Free State province. It did not take into account other Chinese SMEs operating in other provinces. As such, the sample sized used was only adequate to make inferences about Chinese SMEs in the Free State province and not Chinese SMEs in South Africa because it is quite possible that confounding differences can be identified in other provinces. Another limitation of this study is that the technological environment was not considered among the external environmental factors. Furthermore, this research could have had a concrete conclusion about the perception of the external environment of SA, if the study had included all foreign SMEs operating in the Free State province.

7.6 FURTHER RESEARCH

This research study examined the motives of Chinese SMEs in the Free State province and their perception about the external environment of South Africa. This research topic has not been covered extensively and therefore there are possible areas for further studies. The following are possible area for further study:

- Further research could be carried out to compare how African foreign businesses and non-African businesses perceive the external environment of South Africa and their motives for investment.
- In-depth research needs to be done on examining the sectoral pattern of FDI in South Africa and how they contribute to economic development.
- Further research could also be done on how Chinese businesses contribute to the economic development of South Africa and how South African businesses perceive the operation of Chinese businesses in the RSA.
- Also, since the study of FDI of Chinese SMEs in the Free State province did not give an overview of FDI in South Africa, thus, having a similar research in other provinces will drive a more comprehensive conclusion on the FDI of Chinese SMEs in South Africa.

7.7 SUMMARY

This chapter presented the conclusions, recommendations, limitations and areas for further study. The major findings of this study are presents below;

- The motive for foreign direct investment of Chinese SMEs in South Africa are market-seeking FDI as it was found that majority of them started a business in SA in order to serve the local market and extend new sales opportunities.
- The majority of the Chinese SMEs were in the retail/wholesale sector.
- Personal sources (e.g. friends and family members) were the most important source of information the Chinese SMEs consider when deciding whether to come and start a business in South Africa.
- The Chinese SMEs indicated that overall, the external factors were impacting their businesses negatively.Crime, corruption, xenophobia and labour regulations were reckoned as the major external factors that impacted their businesses severely.
- The external business environment of South Africa was perceived as predominantly negative by the Chinese SMEs. Of the four main external environmental factors, only the economic factors were perceive as neutral or slight positive (4.01) while the other factors political/institutional (2.98), socio-cultural (3.05) and legal factors (3.20) were all perceived negatively.
- Crime (1.70), theft (2.01), labour unions (2.10), security (2.11) and labour disputes &strikes (2.17) are perceived most negatively by the Chinese SMEs in the business environment of South Africa.
- The majority of those in manufacturing were dissatisfied about their decision to invest in the RSA and are contemplating to leave South Africa. Crime was the main reason for them to consider leaving the country.

In addition, several recommendations were made to improve the investment climate in South Africa hence, providing a favourable environment to attract the most efficient type of FDI such as supply/resource-based FDI or export-oriented FDI. It was suggested that the South African

government should provide effective policing and improve the efficiency of the legal system, thus intensifying the fight against crime. Also, it was proposed that government should review its labour regulations by making it less rigid hence easing the recruitment process.

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APPENDICES

Appendix 1: Questionnaire in English

To whom it may concern

I am currently busy with a business management research project which involves small to medium-sized Chinese businesses. I am asking for your help and cooperation in completing this questionnaire. This research is about Chinese businesses and their perception of the external business environment in South Africa. The University and the researcher guarantee that the information supplied by participants will be treated as strictly confidential. The questionnaire will be completely anonymous.

Thank you very much for your support.

Best Regards!

Van Aardt Smit

Tel: 051-401-2285

(Study Leader)

Emmanuel Ngam

Cell: 076-345-6339

(Student)

QUESTIONNAIRE

For each question, where appropriate, please indicate the correct answer by circling the correct number.

SECTION A: Perception of the Business /External Environment in South Africa (SA)

1. Please indicate how negative or positive you feel about each of the following factors while doing business in South Africa (SA). (1 means very negative and 7 means very positive)

Factors	Very negative	Negative	Slightly negative	Neutral	Slightly positive	Positive	Very positive
a. Economic Factors							
Exchange rate	1	2	3	4	5	6	7
Inflation rate	1	2	3	4	5	6	7
Interest rate	1	2	3	4	5	6	7
Access to credit	1	2	3	4	5	6	7
Competition	1	2	3	4	5	6	7
Established financial and banking systems	1	2	3	4	5	6	7
Economic growth	1	2	3	4	5	6	7
Taxes	1	2	3	4	5	6	7
b. Political / Institutional Factors							
Stable government	1	2	3	4	5	6	7
Documentation to start-up a business	1	2	3	4	5	6	7
Tax regulations	1	2	3	4	5	6	7
Labour disputes and strikes	1	2	3	4	5	6	7
Regulations on import of goods	1	2	3	4	5	6	7
Labour unions	1	2	3	4	5	6	7
c. Socio-cultural Factors							
HIV/ AIDS	1	2	3	4	5	6	7
Standard of living	1	2	3	4	5	6	7

Language barrier	1	2	3	4	5	6	7
Crime	1	2	3	4	5	6	7
Security	1	2	3	4	5	6	7
Theft	1	2	3	4	5	6	7
Racism	1	2	3	4	5	6	7
Xenophobia	1	2	3	4	5	6	7
Corruption	1	2	3	4	5	6	7
Bribes	1	2	3	4	5	6	7
Moral ethics	1	2	3	4	5	6	7
Labour skills	1	2	3	4	5	6	7
Cost of labour	1	2	3	4	5	6	7
Infrastructure (Roads, etc)	1	2	3	4	5	6	7
Telecommunications	1	2	3	4	5	6	7
d. Legal systems							
Confidence in the legal system	1	2	3	4	5	6	7
Law enforcement	1	2	3	4	5	6	7
Time to get court judgments	1	2	3	4	5	6	7
Courts protect the guilty	1	2	3	4	5	6	7
Execution of court orders	1	2	3	4	5	6	7
Response from police services	1	2	3	4	5	6	7
Access to legal assistance	1	2	3	4	5	6	7
Cost of legal services	1	2	3	4	5	6	7

2. Please indicate how the following factors impact on your business. (1- very negative and 7 - very positive)

	Very negative	**Negative**	**Slightly negative**	**Neutral**	**Slightly positive**	**Positive**	**Very positive**
Labour regulations	1	2	3	4	5	6	7
Economic conditions	1	2	3	4	5	6	7
Legal systems	1	2	3	4	5	6	7
Crime	1	2	3	4	5	6	7
Xenophobia	1	2	3	4	5	6	7
Corruption	1	2	3	4	5	6	7
Political stability	1	2	3	4	5	6	7
Government regulations	1	2	3	4	5	6	7
Ethics	1	2	3	4	5	6	7
Infrastructure (Roads, etc)	1	2	3	4	5	6	7

3. Please indicate your level of agreement or disagreement with the following statements about what motivated you to start a business in SA? (1 means you strongly disagree and 7 mean you strongly agree).							
Statements	**Strongly**	**Disagree**	**Slightly**	**Neutral**	**Slightly**	**Agree**	**Strongly**

	disagree		disagree		agree		Agree
a. Economic Factors							
Easy access to local markets	1	2	3	4	5	6	7
Available large market size	1	2	3	4	5	6	7
Availability of cheap labour	1	2	3	4	5	6	7
Availability of natural resources	1	2	3	4	5	6	7
Low competition in the market	1	2	3	4	5	6	7
Low cost of doing business in SA	1	2	3	4	5	6	7
Ease access to information in the market	1	2	3	4	5	6	7
Presences of sound economic policy	1	2	3	4	5	6	7
Bad business environment in China	1	2	3	4	5	6	7
b. Political/ Institutional Factors							
Less requirements to start a business in SA	1	2	3	4	5	6	7
SA government provides export promotion initiatives	1	2	3	4	5	6	7
Easy government regulations on foreign businesses	1	2	3	4	5	6	7
Easy regulations on imports	1	2	3	4	5	6	7
The political system is stable	1	2	3	4	5	6	7
The legal system	1	2	3	4	5	6	7
c. Socio-cultural Factors							
Influence from friends and family members in SA	1	2	3	4	5	6	7
Encouragement from Chinese businesses in SA	1	2	3	4	5	6	7
Culture of the people of SA	1	2	3	4	5	6	7
Gateway to other African markets	1	2	3	4	5	6	7
The presences of good infrastructure	1	2	3	4	5	6	7
Having good business networks and contacts in SA	1	2	3	4	5	6	7

4. How do you rate the government support and effectiveness on the following services with regard to doing business in SA? (1 being very poor and 5 being very good).

	Very poor	Poor	Average	Good	Very good
Municipality services	1	2	3	4	5
Control of corruption	1	2	3	4	5
Tax and tax administration	1	2	3	4	5
Issue of business license	1	2	3	4	5
Start-up procedure for a business	1	2	3	4	5

Visa and work permits Issuance	1	2	3	4	5
Custom services	1	2	3	4	5
Business entry restrictions	1	2	3	4	5
Political stability	1	2	3	4	5
Efficiency of government departments	1	2	3	4	5
Control of xenophobia attacks	1	2	3	4	5
Labour disputes	1	2	3	4	5
Rule of law	1	2	3	4	5
BEE policy	1	2	3	4	5
Fight against crime	1	2	3	4	5

5. How do you rate the overall performance of the following (1 - very poor and 5 - very good)

	Very poor	**Poor**	**Average**	**Good**	**Very Good**
a. Provincially					
Electricity supply	1	2	3	4	5
Water supply and quality	1	2	3	4	5
Road infrastructure	1	2	3	4	5
Procedure to start a business	1	2	3	4	5
Service delivery by municipality	1	2	3	4	5
Sanitation	1	2	3	4	5
b. Nationally					
Telecommunication network	1	2	3	4	5
Public transportation services	1	2	3	4	5
Harbours and Rail	1	2	3	4	5
Exports and Imports/ Customs	1	2	3	4	5
Internet accessibility	1	2	3	4	5
Security	1	2	3	4	5
Technological developments	1	2	3	4	5

SECTION B: Xenophobia

6. Please indicate your level of agreement or disagreement with the following statements about your feelings with regard to local and foreign nationals. (1 means you strongly disagree and 7 mean you strongly agree).

Statements	**Strongly disagree**	**Disagree**	**Slightly disagree**	**Neutral**	**Slightly agree**	**Agree**	**Strongly Agree**
South African businesses are willing to do business or transactions with you	1	2	3	4	5	6	7
South Africans are generally welcoming to foreign nationals	1	2	3	4	5	6	7
South African businesses like	1	2	3	4	5	6	7

competing with foreign businesses							
Other African nationals are willing to do business or transactions with you	1	2	3	4	5	6	7
Other African nationals are friendly	1	2	3	4	5	6	7
South Africans too reluctant to start their own business	1	2	3	4	5	6	7
South Africans like buying from you	1	2	3	4	5	6	7
South Africans believe you are taking their business opportunities	1	2	3	4	5	6	7
South Africans have no good feelings about your business activities	1	2	3	4	5	6	7
Government departments discriminate against foreign nationals	1	2	3	4	5	6	7

7.1 Have you lost business because of the BEE policy?

Yes	No

7.2 Have your business suffered from crime?

Yes	No

7.3 Have your business experience xenophobic attacks?

Yes	No

SECTION C: NETWORKING

8. How important were the following information sources when you were considering to start business here. Please rank them in order of importance, 1-most important and 5- least important

Information sources	Level of Importance
Personal sources (e.g. friends, family members, foreign contacts)	
Media sources (e.g. magazines, newspapers, brochures)	
Electronic sources (e.g. internet, television)	
Personal visit to SA	
Conferences and seminars	

9. Do you have local South African business partners?

Yes	No

SECTION D: Ethical Attitudes

10. Please indicate your level of agreement or disagreement with the following statement about the ethics of

doing business in South Africa. (1 means you strongly disagree and 7 mean you strongly agree).

Statements	Strongly disagree	Disagree	Slightly disagree	Neutral	Slightly agree	Agree	Strongly Agree
Bribery is common in business transactions	1	2	3	4	5	6	7
South Africans are honest	1	2	3	4	5	6	7
South Africans practice the belief of "ubuntu" or they do care for one another	1	2	3	4	5	6	7
Sound ethics is good for business in the long run	1	2	3	4	5	6	7
Workers steal from you	1	2	3	4	5	6	7
Customers try to steal from you	1	2	3	4	5	6	7
Business managers have high ethical standards	1	2	3	4	5	6	7
Businesses do strictly follow legal and ethical standards	1	2	3	4	5	6	7
The legal system punish unethical behaviours	1	2	3	4	5	6	7
Most people in public offices are not really interested in the problems of foreigners	1	2	3	4	5	6	7

SECTION E:
Demographics

11. How many employees do you have in your business?

_____ **employees**

12. How many years did you work in formal employment before running this business?

Never worked before	
1 - 3 years	
4 - 6 years	
7 - 9 years	
10 and more years	

13. How many years have you been operating this business in SA

_____ **Years**

14. Do you have other businesses/branches in SA?

Yes	No

15. Have you ever operated a business in China before?

Yes	No

15.1 If yes, are you still operating the business in China?

Yes	No

15.2 If yes is the answer to 15.1, is the business affiliated to this one in SA?

Yes	No

16. Have you operated a business in another country (s) other than China?

Yes	No

17. How do you perceive the overall procedure of starting a business in South Africa? (1 means very difficult and 5 means very easy).

1	2	3	4	5

18. Do you think the business environment is currently better than 5 years ago, for Chinese businesses in South Africa?

Yes	No

19. Does the Chinese government give you incentives for doing business in SA?

Yes	No

20.1 Do you import?

Yes	No

20.2 Do you export?

Yes	No

20.3 Do you manufacture in South Africa?

Yes	No

20.4 What percentage of your sales is to South African Customers? %

21. Which one of the sectors best describe your business? Tick one

Manufacturing	
Agriculture	
Construction	
Medical/Health services	
Retail/ Wholesale	
Food, restaurant, beverage and tobacco	
Finance and business services	
Others, please specify :	

22. What is the level of competition in your industry? Tick one

Very high	
High	
Moderate	
Low	
Very low	

23. If you could go over your decision today, would you have started your business in SA?

Yes	No

23.1 If No, please specify why?

Appendix 2: Questionnaire in Chinese

致：相关负责人

我们是自由洲大学商学院的老师和学生. 我们正在进行一个企业管理方面的研究, 这个研究是关于外资企业和南非的投资环境的, 涉及到华人企业. 我们恳切地希望您能在百忙之中给予协助, 完成这份调查问卷.

自由洲大学和研究者本人向您保证, 调查问卷所反馈的信息将被严格保密, 而且它所提供的信息将仅仅用于这项研究.

这份调查问卷是匿名的.

非常感谢您的帮助和支持.

祝您生意兴隆, 财源滚滚.

Van Aardt Smit, Emmanuel Ngam

Tel: 051-401-2285 **Cell: 076-345-6339**

(导师) (学生)

问卷

A 部分：南非商业环境

1. 请选择下列因素对您的商业行为的影响程度.（1=非常消极的影响, 7=非常积极的影响）

因素	非常消极	消极	稍微消极	中立	稍微积极	积极	非常积极
经济因素							
汇率	1	2	3	4	5	6	7
通货膨胀率	1	2	3	4	5	6	7
利率	1	2	3	4	5	6	7
获得信贷的容易程度	1	2	3	4	5	6	7
市场竞争	1	2	3	4	5	6	7
金融和银行服务	1	2	3	4	5	6	7
经济增长率	1	2	3	4	5	6	7
税率	1	2	3	4	5	6	7
政治制度因素							
稳定的政府	1	2	3	4	5	6	7
注册公司的容易程度	1	2	3	4	5	6	7
税收法规	1	2	3	4	5	6	7
劳资纠纷和罢工	1	2	3	4	5	6	7
商品进口条例	1	2	3	4	5	6	7
劳工工会	1	2	3	4	5	6	7
社会文化因素							
艾滋病毒/艾滋病	1	2	3	4	5	6	7

生活标准	1	2	3	4	5	6	7
语言障碍	1	2	3	4	5	6	7
犯罪	1	2	3	4	5	6	7
安全	1	2	3	4	5	6	7
盗窃	1	2	3	4	5	6	7
种族主义	1	2	3	4	5	6	7
排外主义	1	2	3	4	5	6	7
腐败	1	2	3	4	5	6	7
行贿受贿	1	2	3	4	5	6	7
道德伦理	1	2	3	4	5	6	7
劳动技能	1	2	3	4	5	6	7
劳动力成本	1	2	3	4	5	6	7
基础设施（道路等）	1	2	3	4	5	6	7
电信	1	2	3	4	5	6	7

法律制度							
在法律制度的信心	1	2	3	4	5	6	7
执法	1	2	3	4	5	6	7
时间得到法院的判决	1	2	3	4	5	6	7
法院保护有罪	1	2	3	4	5	6	7
执行法院命令	1	2	3	4	5	6	7
警察部门的回应	1	2	3	4	5	6	7
获得法律援助	1	2	3	4	5	6	7
法律服务费用	1	2	3	4	5	6	7

2. 请指出下列因素对您的业务的影响程度.（1 - 非常消极，7 - 非常积极）

	非常消极	消极	稍微消极	中立	稍微积极	积极	非常积极
劳动法规	1	2	3	4	5	6	7
经济状况	1	2	3	4	5	6	7
法律制度	1	2	3	4	5	6	7
犯罪	1	2	3	4	5	6	7

排外主义	1	2	3	4	5	6	7
腐败	1	2	3	4	5	6	7
政治稳定	1	2	3	4	5	6	7
政府规章	1	2	3	4	5	6	7
伦理	1	2	3	4	5	6	7
基础设施（道路等）	1	2	3	4	5	6	7

3. 请选择是什么促使您开始在南非设立企业.（1=强烈反对, 7=强烈同意）。

因素	强烈反对	不同意	稍有不同意	中立	略同意	同意	强烈同意
经济因素							
容易进入当地市场	1	2	3	4	5	6	7
现有市场规模大	1	2	3	4	5	6	7
廉价劳动力的可用性	1	2	3	4	5	6	7
自然资源的可用性	1	2	3	4	5	6	7
在市场竞争低	1	2	3	4	5	6	7
在南非做业务成本低	1	2	3	4	5	6	7
易于获取市场信息	1	2	3	4	5	6	7
健全的经济政策	1	2	3	4	5	6	7
国内的商业环境糟糕	1	2	3	4	5	6	7
政治/制度因素							
创立企业的要求较低	1	2	3	4	5	6	7
南非政府鼓励出口	1	2	3	4	5	6	7
政府对外资企业的规定较少	1	2	3	4	5	6	7
政府对进口商品的规定较少	1	2	3	4	5	6	7
政治制度比较稳定	1	2	3	4	5	6	7
法律制度	1	2	3	4	5	6	7
社会文化因素							
朋友和家庭成员影响	1	2	3	4	5	6	7

其他在南非的中资企业的影响	1	2	3	4	5	6	7
南非的文化	1	2	3	4	5	6	7
南非是进入其他非洲市场的门户	1	2	3	4	5	6	7
南非有良好的基础设	1	2	3	4	5	6	7
在南非有良好的商业网络和社会关系	1	2	3	4	5	6	7

4. 您如何评价南非政府在下列服务中的表现或成效？（1=非常差，5=很好）.

	很差	差	一般	好	很好
市政服务	1	2	3	4	5
控制腐败	1	2	3	4	5
税收和税务管理	1	2	3	4	5
签发营业执照	1	2	3	4	5
新企业的启动程序	1	2	3	4	5
签证签发	1	2	3	4	5
服务海关	1	2	3	4	5
市场准入限制	1	2	3	4	5
维护政治稳定	1	2	3	4	5
政府部门的效率	1	2	3	4	5
控制仇外攻击	1	2	3	4	5
处理劳资纠纷	1	2	3	4	5
法治	1	2	3	4	5
贯彻黑人经济振兴计划	1	2	3	4	5
打击犯罪	1	2	3	4	5

5. 您如何评价以下服务（1 - 极差，5 - 非常好）

	很差	差	一般	好	很好
省级					
电力供应	1	2	3	4	5
水供应和质量	1	2	3	4	5
道路基础设施	1	2	3	4	5

创业的程序	1	2	3	4	5
由市政府提供的其他服务	1	2	3	4	5
卫生设施	1	2	3	4	5
全国范围					
电信网络	1	2	3	4	5
公共交通服**务**	1	2	3	4	5
港口及**铁**路	1	2	3	4	5
进出口/海关服务	1	2	3	4	5
互联网服务	1	2	3	4	5
安全	1	2	3	4	5
科技发展水平	1	2	3	4	5

B 部分：排外心理

6. 对以下说法, 请选择您同意或不同意的程度（1=强烈反对, 7=非常同意）.

	强烈反对	不同意	稍有不同意	中立	略同意	同意	**强烈同意**
南非本地企业愿意与您做生意	1	2	3	4	5	6	7
南非人**欢迎外国**人	1	2	3	4	5	6	7
南非企业喜欢与外国企业竞争	1	2	3	4	5	6	7
其他非洲国家的人乐意与你做生意	1	2	3	4	5	6	7
其他非洲国家的人很友好	1	2	3	4	5	6	7
南非人不愿意自己创业	1	2	3	4	5	6	7
南非人喜欢从您那里买东西	1	2	3	4	5	6	7
南非人相信您正在掘取他们的商业机会	1	2	3	4	5	6	7
南非人对您的经营活动没有好感	1	2	3	4	5	6	7
政府部门歧视外国国民	1	2	3	4	5	6	7

7.1 您有没有因为黑人经济振兴政策而丢失业务？

是的	没有

7.2 一些犯罪份子的行为有没有让您的企业遭受损失?

是的	没有

7.3 您的企业遭遇过排外攻击吗?

是的	没有

C 部分：网络

8. 当初考虑在南非设立企业的时候, 您认为以下的信息来源对你的决定影响程度如何? 请按重要性顺序排名，1-最不重要，5 - 最重要.

信息来源	重要性
个人资料（例如朋友，家人，对外联系）	
媒体（如杂志，报纸，小册子）	
电子来源（例如互联网，电视）	
亲自考察南非	
会议和研讨会	

9. 您有南非当地的商业伙伴吗?

是的	没有

10. 以下是对于南非商业道德的一些评述, 对于这些评述, 您持哪种观点. (1=强烈反对,7=非常同意）.

	强烈反对	不同意	稍有不同意	中立	略同意	同意	强烈同意
在南非, 贿赂在商业活动中很普遍	1	2	3	4	5	6	7
南非人是诚实的	1	2	3	4	5	6	7
南非人互相照顾, 互相扶持	1	2	3	4	5	6	7
良好的商业道德从长远看来对企业有益	1	2	3	4	5	6	7
您的工人有偷窃行为	1	2	3	4	5	6	7

您的客户/客人有偷窃行为	1	2	3	4	5	6	7
企业经理具有较高的道德标准	1	2	3	4	5	6	7
企业严格遵守法律和道德标准	1	2	3	4	5	6	7
法律制度**惩罚不道德的行为**	1	2	3	4	5	6	7
担任公职的大多数人并不真正关心外国人的问题	1	2	3	4	5	6	7

E 部分：人口统计

11. 您的企业有多少雇员？

12. 在经营现在这个企业以前, 您有多少年正式工作经验？

从未工作过	
1 - 3 年	
4 - 6 年	
7 - 9 年	
10 多年	

13. 您在南非经营这个企业多久了？		年
14. 您的企业在南非还有其他分支机构吗？	**有**	**没有**
15. 您以前在国内经营过企业吗？	**是的**	**没有**
15.1 如果是的话，您现在是否依然在国内经营业务？	**是的**	**没有**
15.2 如果 15.1 的答案是肯定的,那么这个企业是附属于在南非企业吗？	**是的**	**没有**
16. 您在中国和南非以外的国家经营过企业吗？	**是的**	**没有**

17. 您觉得在南非开创企业容易吗? (1=非常困难，5=非常容易）.

1	2	3	4	5

18. 您认为目前南非的商业环境好于 5 年前吗？	**是的**	**没有**
19. 贵国政府鼓励在南非经商吗？	**是的**	**没有**
20.1 您的企业进口产品吗？	**是的**	**没有**
20.2 您的企业出口产品吗？	**是的**	**没有**
20.3 您在南非从事制造业吗？	**是的**	**没有**

20.4 您有多少比例的商品销售给南非的客户？ _____ %

21. 您的企业属于下列哪一个行业?

制造业	
农业	
建筑业	
医疗卫生服务	
零售/批发	
食品，餐饮	
金融及商业服务	
其他，请注明:	

22. 您所从事的行业, 市场竞争属于下列哪种水平？

非常激烈	
激烈	
温和	
低	
极低	

23. 如果让您重新决定, 您还会在南非创立企业吗？

会	不会

23.1 如果不会，请注明原因？

_____

_____

Appendix 3: T-test for the differences in the perception of major external factors between SMEs with ≤ 6 years of operation and SMEs with >6 years of operation

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Labour regulations	Equal variances assumed	.864	.355	3.497	94	.001	1.032	.295	.446	1.618
	Equal variances not assumed			3.493	92.881	.001	1.032	.295	.445	1.619
Economic conditions	Equal variances assumed	1.004	.319	.859	94	.393	.270	.315	-.355	.896
	Equal variances not assumed			.852	87.875	.396	.270	.317	-.360	.901
Legal systems	Equal variances assumed	21.995	.000	2.396	94	.019	.569	.237	.097	1.040
	Equal variances not assumed			2.349	72.615	.022	.569	.242	.086	1.051
Crime	Equal variances assumed	.000	.995	.767	94	.445	.263	.343	-.418	.943
	Equal variances not assumed			.765	92.570	.446	.263	.343	-.419	.944
Xenophobia	Equal variances assumed	1.792	.184	-.510	94	.611	-.161	.316	-.788	.466
	Equal variances not assumed			-.506	89.132	.614	-.161	.318	-.792	.470
Corruption	Equal variances assumed	.116	.734	1.855	94	.067	.497	.268	-.035	1.030
	Equal variances not assumed			1.867	93.564	.065	.497	.266	-.032	1.026
Political stability	Equal variances assumed	.788	.377	.932	94	.354	.319	.342	-.361	.999
	Equal variances not assumed			.928	91.228	.356	.319	.344	-.364	1.002
Government regulations	Equal variances assumed	.529	.469	-.229	93	.819	-.060	.262	-.580	.460
	Equal variances not assumed			-.231	92.691	.818	-.060	.259	-.575	.455

Ethics	Equal variances assumed	9.624	.003	.831	94	.408	.201	.242	-.279	.681
	Equal variances not assumed			.819	80.637	.415	.201	.245	-.287	.689
Infrastructure (Roads, etc)	Equal variances assumed	.147	.703	.039	94	.969	.012	.310	-.603	.627
	Equal variances not assumed			.039	92.918	.969	.012	.310	-.603	.628

(sig at 0.05; 2-tailed)

Appendix 4: T-test for the differences in the perception of major external factors between SMEs with ≤ 10 employees and SMEs with > 10 employees

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Labour regulations	Equal variances assumed	1.084	.301	1.016	94	.312	.323	.317	-.308	.953
	Equal variances not assumed			1.035	86.677	.304	.323	.312	-.297	.942
Economic conditions	Equal variances assumed	.106	.746	.483	94	.630	.155	.321	-.482	.793
	Equal variances not assumed			.486	83.359	.628	.155	.319	-.480	.790
Legal systems	Equal variances assumed	.649	.423	-1.731	94	.087	-.424	.245	-.910	.062
	Equal variances not assumed			-1.726	81.072	.088	-.424	.245	-.912	.065
Crime	Equal variances assumed	.103	.750	.518	94	.606	.181	.349	-.512	.874
	Equal variances not assumed			.516	80.748	.607	.181	.350	-.516	.878
Xenophobia	Equal variances assumed	.047	.829	.349	94	.728	.112	.321	-.526	.750
	Equal variances not assumed			.352	84.457	.726	.112	.318	-.521	.745
Corruption	Equal variances assumed	1.564	.214	.448	94	.655	.124	.277	-.427	.675
	Equal variances not assumed			.436	74.029	.664	.124	.285	-.443	.692
Political stability	Equal variances assumed	.001	.980	-.019	94	.985	-.007	.350	-.701	.688
	Equal variances not assumed			-.019	83.042	.985	-.007	.348	-.700	.686
Government regulations	Equal variances assumed	1.448	.232	.005	93	.996	.001	.266	-.526	.529
	Equal variances not assumed			.005	68.062	.996	.001	.278	-.554	.556
Ethics	Equal variances assumed	.000	.995	-.334	94	.739	-.082	.247	-.572	.408
	Equal variances			-.331	79.418	.742	-.082	.249	-.577	.413

	not assumed									
Infrastructure (Roads, etc)	Equal variances assumed	.869	.354	-.455	94	.650	-.143	.315	-.768	.482
	Equal variances not assumed			-.445	75.597	.657	-.143	.321	-.783	.497

(Sig at 0.05; 2-tailed)

Appendix 5: T-test for the differences in the perception of major external factors between manufacturing and non-manufacturing

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Labour regulations	Equal variances assumed	.078	.780	-4.892	94	.000	-1.442	.295	-2.027	-.857
	Equal variances not assumed			-4.785	61.201	.000	-1.442	.301	-2.044	-.839
Economic conditions	Equal variances assumed	1.069	.304	-.885	94	.379	-.293	.331	-.950	.364
	Equal variances not assumed			-.851	58.428	.398	-.293	.344	-.982	.396
Legal systems	Equal variances assumed	4.450	.038	-.845	94	.400	-.216	.256	-.725	.292
	Equal variances not assumed			-.794	54.883	.431	-.216	.273	-.763	.330
Crime	Equal variances assumed	.899	.345	-1.117	94	.267	-.401	.359	-1.114	.312
	Equal variances not assumed			-1.144	69.517	.257	-.401	.351	-1.101	.298
Xenophobia	Equal variances assumed	.011	.918	-.885	94	.379	-.293	.331	-.950	.364
	Equal variances not assumed			-.868	61.677	.389	-.293	.338	-.968	.382
Corruption	Equal variances assumed	2.513	.116	-.949	94	.345	-.271	.286	-.839	.296
	Equal variances not			-1.03	82.218	.303	-.271	.262	-.792	.250

	assumed			6						
Political stability	Equal variances assumed	.363	.548	.435	94	.664	.157	.361	-.560	.875
	Equal variances not assumed			.444	68.895	.658	.157	.354	-.549	.864
Government regulations	Equal variances assumed	2.076	.153	-.442	93	.660	-.122	.276	-.671	.427
	Equal variances not assumed			-.491	82.240	.625	-.122	.249	-.616	.372
Ethics	Equal variances assumed	1.447	.232	-.880	94	.381	-.224	.254	-.728	.281
	Equal variances not assumed			-.879	64.914	.383	-.224	.254	-.732	.285
Infrastructure (Roads, etc)	Equal variances assumed	.082	.775	.115	94	.909	.038	.326	-.609	.684
	Equal variances not assumed			.114	62.800	.910	.038	.330	-.622	.697

(Sig at 0.05; 2-tailed)

Appendix 6: T-test for the difference in the perception of major external factors between SMEs who will decide to invest again and SMEs who will not invest again

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Labour regulations	Equal variances assumed	.185	.668	3.448	94	.001	1.072	.311	.455	1.690
	Equal variances not assumed			3.332	59.236	.001	1.072	.322	.428	1.716
Economic conditions	Equal variances assumed	.089	.767	2.185	94	.031	.709	.324	.065	1.352
	Equal variances not assumed			2.250	70.642	.028	.709	.315	.081	1.336
Legal systems	Equal variances assumed	5.408	.022	1.395	94	.166	.355	.255	-.150	.860
	Equal variances not assumed			1.293	53.095	.202	.355	.275	-.196	.906
Crime	Equal variances assumed	3.641	.059	2.048	94	.043	.724	.354	.022	1.427
	Equal variances not assumed			2.298	87.294	.024	.724	.315	.098	1.351
Xenophobia	Equal variances assumed	7.622	.007	2.185	94	.031	.709	.324	.065	1.352
	Equal variances not assumed			2.515	91.177	.014	.709	.282	.149	1.268
Corruption	Equal variances assumed	6.272	.014	2.646	94	.010	.733	.277	.183	1.283
	Equal variances not assumed			2.977	87.772	.004	.733	.246	.244	1.222

Political stability	Equal variances assumed	.442	.508	.716	94	.476	.258	.361	-.458	.975
	Equal variances not assumed			.688	58.254	.494	.258	.376	-.494	1.010
Government regulations	Equal variances assumed	.973	.327	1.131	93	.261	.311	.275	-.235	.856
	Equal variances not assumed			1.118	60.597	.268	.311	.278	-.245	.866
Ethics	Equal variances assumed	2.465	.120	1.063	94	.290	.270	.254	-.234	.774
	Equal variances not assumed			1.038	60.795	.304	.270	.260	-.250	.790
Infrastructure (Roads, etc)	Equal variances assumed	2.986	.087	.310	94	.757	.101	.326	-.545	.747
	Equal variances not assumed			.285	51.949	.777	.101	.354	-.610	.812

(Sig at 0.05; 2-tailed)

Appendix 7: T-test for the differences in the perception of external environmental factors between SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Exchange rate	Equal variances assumed	.199	.657	.429	94	.669	.135	.315	-.490	.759
	Equal variances not assumed			.427	91.215	.670	.135	.316	-.492	.762
Inflation rate	Equal variances assumed	6.098	.015	.072	94	.943	.023	.316	-.605	.650
	Equal variances not assumed			.072	91.920	.943	.023	.313	-.599	.644
Interest rate	Equal variances assumed	1.065	.305	.728	94	.469	.183	.251	-.316	.681
	Equal variances not assumed			.736	90.930	.464	.183	.248	-.310	.676
Access to credit	Equal variances assumed	1.249	.267	-1.041	94	.301	-.303	.291	-.880	.275
	Equal variances not assumed			-1.045	93.981	.299	-.303	.289	-.877	.272
Competition	Equal variances assumed	.975	.326	-1.121	94	.265	-.312	.278	-.865	.241
	Equal variances not assumed			-1.124	93.967	.264	-.312	.278	-.864	.239
Good Financial / Banking	Equal variances assumed	.506	.479	.564	94	.574	.179	.318	-.452	.810
	Equal variances not assumed			.567	93.641	.572	.179	.316	-.448	.806
Economic growth	Equal variances assumed	2.258	.136	.560	94	.577	.157	.279	-.398	.711

	Equal variances not assumed			.558	90.789	.579	.157	.281	-.401	.714
Taxes	Equal variances assumed	.023	.879	.300	94	.765	.077	.258	-.435	.590
	Equal variances not assumed			.301	93.998	.764	.077	.257	-.433	.588
Stable government	Equal variances assumed	.651	.422	1.696	94	.093	.630	.371	-.107	1.367
	Equal variances not assumed			1.694	92.856	.094	.630	.372	-.108	1.368
Start-up Documentation	Equal variances assumed	.833	.364	1.426	94	.157	.397	.278	-.156	.949
	Equal variances not assumed			1.423	92.435	.158	.397	.279	-.157	.950
Tax regulations	Equal variances assumed	.015	.904	.767	94	.445	.168	.219	-.267	.602
	Equal variances not assumed			.767	93.078	.445	.168	.219	-.267	.603
Labour disputes and strikes	Equal variances assumed	6.482	.013	2.358	94	.020	.737	.313	.116	1.358
	Equal variances not assumed			2.385	90.681	.019	.737	.309	.123	1.352
Regulations on import of goods	Equal variances assumed	.151	.698	.323	94	.748	.091	.283	-.471	.653
	Equal variances not assumed			.321	91.264	.749	.091	.284	-.473	.656
Labour unions	Equal variances assumed	.637	.427	.473	94	.637	.158	.335	-.506	.823
	Equal variances not assumed			.474	93.997	.636	.158	.334	-.504	.821
HIV/ AIDS	Equal variances assumed	5.938	.017	1.030	94	.306	.239	.232	-.222	.700
	Equal variances not assumed			1.038	92.996	.302	.239	.230	-.218	.697
Standard of living	Equal variances assumed	1.352	.248	-.322	94	.748	-.092	.286	-.661	.477
	Equal variances not assumed			-.319	86.625	.751	-.092	.289	-.667	.482
Language barrier	Equal variances assumed	2.887	.093	-1.603	94	.112	-.539	.336	-1.207	.129
	Equal variances not assumed			-1.616	92.740	.109	-.539	.334	-1.202	.123
Crime	Equal variances assumed	.135	.715	.172	94	.864	.046	.268	-.487	.579
	Equal variances not assumed			.172	93.244	.864	.046	.268	-.487	.579

Security	Equal variances assumed	.000	.995	.901	94	.370	.262	.291	-.315	.839
	Equal variances not assumed			.901	93.341	.370	.262	.291	-.315	.839
Theft	Equal variances assumed	.367	.546	-.786	94	.434	-.230	.293	-.813	.352
	Equal variances not assumed			-.783	91.321	.436	-.230	.294	-.815	.354
Racism	Equal variances assumed	3.240	.075	-.859	94	.392	-.237	.276	-.786	.311
	Equal variances not assumed			-.850	83.885	.398	-.237	.279	-.793	.318
Xenophobia	Equal variances assumed	.901	.345	-.577	94	.566	-.170	.294	-.753	.414
	Equal variances not assumed			-.573	88.817	.568	-.170	.296	-.758	.419
Corruption	Equal variances assumed	1.464	.229	.726	94	.470	.179	.247	-.311	.669
	Equal variances not assumed			.730	93.805	.467	.179	.245	-.308	.667
Bribes	Equal variances assumed	.192	.663	.565	94	.573	.143	.252	-.358	.644
	Equal variances not assumed			.565	93.175	.573	.143	.252	-.359	.644
Moral ethics	Equal variances assumed	.645	.424	1.346	94	.182	.357	.266	-.170	.885
	Equal variances not assumed			1.356	92.992	.178	.357	.263	-.166	.881
Labour skills	Equal variances assumed	.000	.984	1.377	94	.172	.340	.247	-.150	.830
	Equal variances not assumed			1.372	91.187	.173	.340	.248	-.152	.832
Cost of labour	Equal variances assumed	.111	.740	2.200	94	.030	.530	.241	.052	1.007
	Equal variances not assumed			2.208	93.999	.030	.530	.240	.053	1.006
Infrastructure (Roads, etc)	Equal variances assumed	.266	.607	.407	94	.685	.105	.259	-.408	.619
	Equal variances not assumed			.407	93.588	.685	.105	.259	-.408	.619
Telecommunications	Equal variances assumed	.275	.601	-.452	94	.652	-.145	.321	-.783	.493
	Equal variances not assumed			-.453	93.926	.652	-.145	.321	-.782	.491
Confidence in the legal system	Equal variances assumed	.052	.821	.554	94	.581	.171	.309	-.443	.786

	Equal variances not assumed			.556	93.913	.579	.171	.308	-.440	.783
Law enforcement	Equal variances assumed	3.963	.049	1.163	94	.248	.349	.300	-.247	.944
	Equal variances not assumed			1.175	91.096	.243	.349	.297	-.241	.938
Time to get court judgments	Equal variances assumed	.126	.723	-.102	94	.919	-.027	.264	-.550	.496
	Equal variances not assumed			-.103	93.974	.919	-.027	.263	-.549	.495
Courts protect the guilty	Equal variances assumed	1.908	.170	-1.122	94	.265	-.354	.315	-.980	.272
	Equal variances not assumed			-1.114	88.260	.268	-.354	.318	-.985	.277
Execution of court orders	Equal variances assumed	5.299	.024	.847	94	.399	.230	.272	-.310	.771
	Equal variances not assumed			.858	89.475	.393	.230	.269	-.303	.764
Response from police services	Equal variances assumed	10.045	.002	1.046	94	.298	.303	.290	-.273	.879
	Equal variances not assumed			1.063	86.462	.291	.303	.286	-.264	.871
Access to legal assistance	Equal variances assumed	.756	.387	1.691	94	.094	.498	.295	-.087	1.083
	Equal variances not assumed			1.686	91.663	.095	.498	.296	-.089	1.085
Cost of legal services	Equal variances assumed	5.631	.020	.623	94	.535	.157	.253	-.344	.659
	Equal variances not assumed			.628	92.955	.531	.157	.251	-.340	.655

(Sig at 0.05; 2-tailed)

Appendix 8: T-test for the differences in the perception of external environmental factors between SMEs with ≤ 10 employee and SMEs with > 10 employees

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Exchange rate	Equal variances assumed	3.168	.078	-.443	94	.659	-.142	.320	-.777	.493
	Equal variances not assumed			-.461	91.483	.646	-.142	.307	-.752	.468
Inflation rate	Equal variances assumed	.004	.949	.008	94	.993	.003	.321	-.636	.641

	Equal variances not assumed			.008	81.812	.993	.003	.321	-.637	.642
Interest rate	Equal variances assumed	7.934	.006	-.285	94	.776	-.073	.256	-.581	.435
	Equal variances not assumed			-.267	62.836	.791	-.073	.273	-.619	.473
Access to credit	Equal variances assumed	6.963	.010	-1.982	94	.050	-.578	.291	-1.156	.001
	Equal variances not assumed			-1.884	66.836	.064	-.578	.307	-1.190	.034
Competition	Equal variances assumed	.006	.940	-3.657	94	.000	-.976	.267	-1.505	-.446
	Equal variances not assumed			-3.668	82.669	.000	-.976	.266	-1.505	-.447
Good Financial / Banking	Equal variances assumed	3.298	.073	-.309	94	.758	-.100	.323	-.742	.542
	Equal variances not assumed			-.297	70.846	.767	-.100	.336	-.769	.569
Economic growth	Equal variances assumed	.000	.991	.551	94	.583	.157	.284	-.408	.721
	Equal variances not assumed			.550	81.307	.584	.157	.285	-.410	.723
Taxes	Equal variances assumed	.243	.623	-.675	94	.501	-.177	.262	-.697	.343
	Equal variances not assumed			-.672	80.628	.503	-.177	.263	-.700	.346
Stable government	Equal variances assumed	.388	.535	-.155	94	.877	-.059	.383	-.820	.702
	Equal variances not assumed			-.151	73.509	.881	-.059	.394	-.845	.726
Start-up Documentation	Equal variances assumed	3.087	.082	1.334	94	.185	.378	.283	-.185	.940
	Equal variances not assumed			1.351	85.345	.180	.378	.280	-.178	.934
Tax regulations	Equal variances assumed	1.797	.183	2.006	94	.048	.439	.219	.005	.873
	Equal variances not assumed			2.038	86.046	.045	.439	.215	.011	.866
Labour disputes and strikes	Equal variances assumed	1.004	.319	1.264	94	.209	.410	.325	-.234	1.055
	Equal variances not assumed			1.249	78.505	.215	.410	.328	-.243	1.064
Regulations on import of goods	Equal variances assumed	.623	.432	.587	94	.559	.169	.288	-.402	.740
	Equal variances not assumed			.581	78.867	.563	.169	.290	-.410	.747

Labour unions	Equal variances assumed	1.846	.177	1.140	94	.257	.386	.339	-.286	1.058
	Equal variances not assumed			1.113	74.642	.269	.386	.347	-.305	1.077
HIV/ AIDS	Equal variances assumed	1.240	.268	2.038	94	.044	.474	.232	.012	.935
	Equal variances not assumed			2.031	80.702	.046	.474	.233	.010	.938
Standard of living	Equal variances assumed	.431	.513	-.009	94	.993	-.003	.292	-.581	.576
	Equal variances not assumed			-.009	87.134	.992	-.003	.286	-.571	.565
Language barrier	Equal variances assumed	.035	.851	-2.698	94	.008	-.901	.334	-1.565	-.238
	Equal variances not assumed			-2.713	83.392	.008	-.901	.332	-1.562	-.241
Crime	Equal variances assumed	.324	.570	-.193	94	.848	-.053	.273	-.595	.489
	Equal variances not assumed			-.201	91.807	.841	-.053	.262	-.572	.467
Security	Equal variances assumed	.012	.913	-.214	94	.831	-.063	.297	-.653	.526
	Equal variances not assumed			-.214	82.215	.831	-.063	.296	-.653	.526
Theft	Equal variances assumed	.159	.691	-.059	94	.953	-.018	.299	-.612	.577
	Equal variances not assumed			-.060	86.690	.953	-.018	.294	-.602	.567
Racism	Equal variances assumed	.019	.892	1.054	94	.295	.296	.280	-.261	.852
	Equal variances not assumed			1.075	86.995	.286	.296	.275	-.251	.842
Xenophobia	Equal variances assumed	.979	.325	.437	94	.663	.131	.299	-.463	.725
	Equal variances not assumed			.439	82.867	.662	.131	.298	-.462	.724
Corruption	Equal variances assumed	2.672	.105	1.068	94	.288	.267	.250	-.230	.764
	Equal variances not assumed			1.031	71.404	.306	.267	.259	-.250	.784
Bribes	Equal variances assumed	.665	.417	1.035	94	.303	.265	.256	-.243	.772
	Equal variances not assumed			1.045	84.590	.299	.265	.253	-.239	.768
Moral ethics	Equal variances assumed	.001	.977	.590	94	.557	.161	.272	-.380	.701

	Equal variances not assumed			.584	78.731	.561	.161	.275	-.387	.708
Labour skills	Equal variances assumed	.073	.788	.528	94	.599	.134	.253	-.369	.636
	Equal variances not assumed			.529	82.595	.598	.134	.253	-.369	.636
Cost of labour	Equal variances assumed	.001	.971	.199	94	.843	.050	.251	-.448	.548
	Equal variances not assumed			.200	83.292	.842	.050	.250	-.447	.546
Infrastructure (Roads, etc)	Equal variances assumed	.688	.409	-.590	94	.556	-.155	.263	-.677	.367
	Equal variances not assumed			-.586	79.718	.559	-.155	.265	-.682	.372
Telecommunications	Equal variances assumed	1.399	.240	-1.413	94	.161	-.457	.324	-1.100	.185
	Equal variances not assumed			-1.381	75.025	.171	-.457	.331	-1.117	.202
Confidence in the legal system	Equal variances assumed	4.244	.042	-.030	94	.976	-.009	.315	-.635	.616
	Equal variances not assumed			-.029	68.062	.977	-.009	.330	-.668	.650
Law enforcement	Equal variances assumed	3.463	.066	.940	94	.350	.287	.306	-.320	.895
	Equal variances not assumed			.891	66.160	.376	.287	.323	-.357	.931
Time to get court judgments	Equal variances assumed	2.691	.104	.348	94	.729	.093	.268	-.439	.625
	Equal variances not assumed			.337	72.320	.737	.093	.277	-.458	.645
Courts protect the guilty	Equal variances assumed	.259	.612	.456	94	.649	.147	.323	-.493	.788
	Equal variances not assumed			.449	77.196	.655	.147	.328	-.505	.800
Execution of court orders	Equal variances assumed	3.263	.074	.141	94	.888	.039	.278	-.512	.591
	Equal variances not assumed			.135	68.704	.893	.039	.290	-.540	.619
Response from police services	Equal variances assumed	6.464	.013	.369	94	.713	.109	.297	-.480	.698
	Equal variances not assumed			.345	62.676	.731	.109	.317	-.524	.742
Access to legal assistance	Equal variances assumed	.068	.794	.716	94	.476	.217	.303	-.385	.820
	Equal variances not assumed			.707	78.152	.481	.217	.307	-.394	.829

Cost of legal services	Equal variances assumed	8.814	.004	1.665	94	.099	.422	.254	-.081	.926
	Equal variances not assumed			1.568	64.388	.122	.422	.269	-.116	.960

(Sig at 0.05; 2-tailed)

Appendix 9: T-test for the differences in the perception of external environmental factors between manufacturing and non-manufacturing SMEs

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Exchange rate	Equal variances assumed	4.907	.029	.915	94	.363	.302	.330	-.353	.956
	Equal variances not assumed			.838	51.523	.406	.302	.360	-.420	1.024
Inflation rate	Equal variances assumed	1.872	.175	-.635	94	.527	-.211	.332	-.869	.448
	Equal variances not assumed			-.678	77.828	.500	-.211	.311	-.829	.408
Interest rate	Equal variances assumed	4.748	.032	.557	94	.579	.147	.264	-.378	.672
	Equal variances not assumed			.613	83.887	.541	.147	.240	-.330	.625
Access to credit	Equal variances assumed	10.763	.001	3.401	94	.001	.987	.290	.411	1.563
	Equal variances not assumed			3.872	89.627	.000	.987	.255	.481	1.493
Competition	Equal variances assumed	2.037	.157	2.654	94	.009	.755	.284	.190	1.319
	Equal variances not assumed			2.826	77.295	.006	.755	.267	.223	1.287
Good Financial / Banking	Equal variances assumed	1.484	.226	.945	94	.347	.315	.333	-.347	.976
	Equal variances not assumed			.999	75.917	.321	.315	.315	-.313	.942
Economic growth	Equal variances	.473	.494	.846	94	.400	.248	.293	-.334	.831

	assumed									
	Equal variances not assumed			.847	65.171	.400	.248	.293	-.337	.834
Taxes	Equal variances assumed	.005	.946	1.173	94	.244	.316	.269	-.219	.851
	Equal variances not assumed			1.127	58.382	.264	.316	.280	-.245	.877
Stable government	Equal variances assumed	2.216	.140	.863	94	.391	.341	.395	-.443	1.124
	Equal variances not assumed			.920	77.549	.361	.341	.370	-.397	1.078
Start-up Documentation	Equal variances assumed	.033	.856	-1.220	94	.226	-.358	.293	-.940	.225
	Equal variances not assumed			-1.258	70.876	.213	-.358	.285	-.925	.209
Tax regulations	Equal variances assumed	.472	.494	-.081	94	.935	-.019	.231	-.477	.440
	Equal variances not assumed			-.083	67.996	.934	-.019	.227	-.472	.435
Labour disputes and strikes	Equal variances assumed	.593	.443	-1.732	94	.087	-.577	.333	-1.239	.085
	Equal variances not assumed			-1.708	62.620	.093	-.577	.338	-1.253	.098
Regulations on import of goods	Equal variances assumed	.038	.847	-1.117	94	.267	-.330	.296	-.918	.257
	Equal variances not assumed			-1.078	59.107	.285	-.330	.306	-.944	.283
Labour unions	Equal variances assumed	.363	.548	-1.381	94	.171	-.482	.349	-1.175	.211
	Equal variances not assumed			-1.354	61.615	.181	-.482	.356	-1.194	.230
HIV/ AIDS	Equal variances assumed	.023	.881	.053	94	.958	.013	.246	-.475	.501
	Equal variances not assumed			.052	61.083	.959	.013	.251	-.489	.515
Standard of living	Equal variances assumed	1.883	.173	.086	94	.932	.026	.301	-.572	.624
	Equal variances not assumed			.090	73.823	.928	.026	.288	-.548	.600
Language barrier	Equal variances assumed	.876	.352	1.151	94	.253	.410	.356	-.297	1.117
	Equal variances not assumed			1.174	68.897	.244	.410	.349	-.286	1.106
Crime	Equal variances assumed	4.262	.042	1.148	94	.254	.322	.280	-.235	.878
	Equal			.974	43.014	.336	.322	.330	-.345	.988

	variances not assumed									
Security	Equal variances assumed	2.462	.120	1.093	94	.277	.333	.305	-.272	.939
	Equal variances not assumed			.998	51.042	.323	.333	.334	-.337	1.004
Theft	Equal variances assumed	2.162	.145	1.150	94	.253	.354	.307	-.257	.964
	Equal variances not assumed			1.046	50.540	.301	.354	.338	-.325	1.032
Racism	Equal variances assumed	.548	.461	.064	94	.949	.019	.292	-.560	.598
	Equal variances not assumed			.060	53.638	.952	.019	.313	-.609	.647
Xenophobia	Equal variances assumed	1.996	.161	.856	94	.394	.264	.309	-.349	.877
	Equal variances not assumed			.789	52.379	.434	.264	.335	-.407	.935
Corruption	Equal variances assumed	2.025	.158	.767	94	.445	.199	.260	-.316	.714
	Equal variances not assumed			.821	78.393	.414	.199	.242	-.283	.682
Bribes	Equal variances assumed	1.211	.274	.675	94	.501	.179	.265	-.348	.705
	Equal variances not assumed			.688	68.824	.493	.179	.260	-.340	.697
Moral ethics	Equal variances assumed	.607	.438	-.569	94	.571	-.160	.282	-.719	.399
	Equal variances not assumed			-.553	60.172	.582	-.160	.290	-.740	.419
Labour skills	Equal variances assumed	.278	.600	-1.948	94	.054	-.501	.257	-1.011	.010
	Equal variances not assumed			-2.007	70.741	.049	-.501	.250	-.998	-.003
Cost of labour	Equal variances assumed	.000	.989	-2.857	94	.005	-.711	.249	-1.206	-.217
	Equal variances not assumed			-2.812	62.261	.007	-.711	.253	-1.217	-.206
Infrastructure (Roads, etc)	Equal variances assumed	1.292	.259	.228	94	.820	.062	.272	-.479	.603
	Equal variances not assumed			.240	74.920	.811	.062	.259	-.453	.577
Telecommunications	Equal variances assumed	.107	.744	.594	94	.554	.201	.338	-.470	.871
	Equal variances not assumed			.586	62.703	.560	.201	.342	-.483	.885

Confidence in the legal system	Equal variances assumed	1.228	.271	-.858	94	.393	-.278	.325	-.923	.366
	Equal variances not assumed			-.903	74.926	.370	-.278	.309	-.893	.336
Law enforcement	Equal variances assumed	5.065	.027	-1.607	94	.111	-.504	.313	-1.126	.119
	Equal variances not assumed			-1.762	83.213	.082	-.504	.286	-1.072	.065
Time to get court judgments	Equal variances assumed	2.439	.122	-.568	94	.571	-.157	.277	-.707	.392
	Equal variances not assumed			-.615	80.470	.540	-.157	.256	-.666	.352
Courts protect the guilty	Equal variances assumed	.268	.606	-1.491	94	.139	-.492	.330	-1.147	.163
	Equal variances not assumed			-1.585	76.973	.117	-.492	.310	-1.110	.126
Execution of court orders	Equal variances assumed	5.109	.026	-1.323	94	.189	-.377	.285	-.942	.189
	Equal variances not assumed			-1.469	85.429	.146	-.377	.256	-.886	.133
Response from police services	Equal variances assumed	9.823	.002	-2.783	94	.007	-.821	.295	-1.407	-.235
	Equal variances not assumed			-3.227	91.991	.002	-.821	.254	-1.326	-.316
Access to legal assistance	Equal variances assumed	1.230	.270	-2.306	94	.023	-.706	.306	-1.313	-.098
	Equal variances not assumed			-2.256	61.288	.028	-.706	.313	-1.331	-.080
Cost of legal services	Equal variances assumed	10.409	.002	-1.229	94	.222	-.325	.264	-.849	.200
	Equal variances not assumed			-1.374	86.614	.173	-.325	.236	-.794	.145

(Sig at 0.05; 2-tailed)

Appendix 10: T-test for the differences in the perception of external environmental factors between SMEs who will decide to invest again and SMEs who will not invest again

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Exchange rate	Equal	.788	.377	-.774	94	.441	-.255	.330	-.911	.400

	variances assumed									
	Equal variances not assumed			-.747	59.093	.458	-.255	.342	-.939	.429
Inflation rate	Equal variances assumed	.337	.563	.495	94	.621	.165	.332	-.495	.824
	Equal variances not assumed			.510	70.474	.612	.165	.323	-.479	.808
Interest rate	Equal variances assumed	.767	.383	.843	94	.402	.222	.264	-.301	.746
	Equal variances not assumed			.913	80.728	.364	.222	.243	-.262	.707
Access to credit	Equal variances assumed	.111	.740	-1.578	94	.118	-.479	.304	-1.082	.124
	Equal variances not assumed			-1.533	60.032	.131	-.479	.313	-1.104	.146
Competition	Equal variances assumed	.477	.491	-2.309	94	.023	-.662	.287	-1.232	-.093
	Equal variances not assumed			-2.280	62.846	.026	-.662	.290	-1.243	-.082
Good Financial / Banking	Equal variances assumed	1.006	.318	-1.085	94	.281	-.361	.333	-1.021	.300
	Equal variances not assumed			-1.128	72.458	.263	-.361	.320	-.998	.277
Economic growth	Equal variances assumed	.076	.783	.098	94	.922	.029	.294	-.556	.613
	Equal variances not assumed			.094	57.537	.926	.029	.308	-.588	.645
Taxes	Equal variances assumed	.169	.682	-1.173	94	.244	-.316	.269	-.851	.219
	Equal variances not assumed			-1.158	62.879	.251	-.316	.273	-.861	.229
Stable government	Equal variances assumed	2.036	.157	.306	94	.760	.121	.396	-.665	.908
	Equal variances not assumed			.321	74.543	.749	.121	.377	-.630	.873
Start-up Documentation	Equal variances assumed	.001	.978	2.543	94	.013	.727	.286	.159	1.295
	Equal variances not assumed			2.635	71.860	.010	.727	.276	.177	1.278
Tax regulations	Equal variances assumed	1.079	.302	-.319	94	.750	-.074	.231	-.532	.385
	Equal variances not assumed			-.335	74.785	.738	-.074	.219	-.511	.364
Labour disputes and strikes	Equal variances assumed	6.834	.010	2.920	94	.004	.947	.324	.303	1.590

	Equal variances not assumed			3.165	80.877	.002	.947	.299	.352	1.542
Regulations on import of goods	Equal variances assumed	2.806	.097	1.757	94	.082	.515	.293	-.067	1.097
	Equal variances not assumed			1.943	84.714	.055	.515	.265	-.012	1.042
Labour unions	Equal variances assumed	7.808	.006	2.208	94	.030	.759	.344	.077	1.441
	Equal variances not assumed			2.504	89.044	.014	.759	.303	.157	1.361
HIV/ AIDS	Equal variances assumed	.183	.670	.135	94	.893	.033	.246	-.454	.521
	Equal variances not assumed			.131	59.504	.896	.033	.254	-.474	.541
Standard of living	Equal variances assumed	.378	.540	-.239	94	.811	-.072	.301	-.670	.526
	Equal variances not assumed			-.230	58.103	.819	-.072	.314	-.701	.556
Language barrier	Equal variances assumed	1.278	.261	-1.151	94	.253	-.410	.356	-1.117	.297
	Equal variances not assumed			-1.188	71.123	.239	-.410	.345	-1.098	.278
Crime	Equal variances assumed	.318	.574	.661	94	.510	.186	.282	-.373	.745
	Equal variances not assumed			.688	72.802	.494	.186	.270	-.353	.725
Security	Equal variances assumed	1.153	.286	1.179	94	.241	.359	.305	-.246	.964
	Equal variances not assumed			1.272	79.841	.207	.359	.283	-.203	.922
Theft	Equal variances assumed	1.020	.315	.650	94	.518	.201	.309	-.413	.814
	Equal variances not assumed			.710	82.583	.480	.201	.282	-.361	.762
Racism	Equal variances assumed	4.073	.046	.889	94	.376	.258	.290	-.318	.835
	Equal variances not assumed			.994	86.705	.323	.258	.260	-.258	.775
Xenophobia	Equal variances assumed	1.116	.294	.490	94	.626	.152	.309	-.463	.766
	Equal variances not assumed			.524	78.204	.602	.152	.289	-.424	.727
Corruption	Equal variances assumed	10.337	.002	-.411	94	.682	-.107	.260	-.623	.410
	Equal variances not assumed			-.463	88.074	.645	-.107	.231	-.565	.352

Bribes	Equal variances assumed	8.182	.005	-.850	94	.397	-.225	.265	-.751	.301
	Equal variances not assumed			-.919	80.421	.361	-.225	.245	-.712	.262
Moral ethics	Equal variances assumed	.009	.924	.241	94	.810	.068	.282	-.492	.628
	Equal variances not assumed			.244	67.545	.808	.068	.278	-.487	.623
Labour skills	Equal variances assumed	1.123	.292	1.948	94	.054	.501	.257	-.010	1.011
	Equal variances not assumed			2.053	75.258	.044	.501	.244	.015	.987
Cost of labour	Equal variances assumed	.155	.695	2.267	94	.026	.573	.253	.071	1.075
	Equal variances not assumed			2.258	64.410	.027	.573	.254	.066	1.080
Infrastructure (Roads, etc)	Equal variances assumed	6.363	.013	-.058	94	.954	-.016	.272	-.557	.525
	Equal variances not assumed			-.064	84.566	.949	-.016	.247	-.506	.474
Telecommunications	Equal variances assumed	.922	.339	-1.008	94	.316	-.339	.336	-1.007	.329
	Equal variances not assumed			-1.036	70.375	.304	-.339	.327	-.992	.313
Confidence in the legal system	Equal variances assumed	.936	.336	1.732	94	.087	.556	.321	-.081	1.193
	Equal variances not assumed			1.819	74.591	.073	.556	.305	-.053	1.164
Law enforcement	Equal variances assumed	1.509	.222	2.380	94	.019	.734	.309	.122	1.347
	Equal variances not assumed			2.545	78.124	.013	.734	.289	.160	1.309
Time to get court judgments	Equal variances assumed	.112	.739	1.587	94	.116	.434	.274	-.109	.978
	Equal variances not assumed			1.653	72.756	.103	.434	.263	-.090	.958
Courts protect the guilty	Equal variances assumed	.527	.470	1.491	94	.139	.492	.330	-.163	1.147
	Equal variances not assumed			1.473	62.945	.146	.492	.334	-.175	1.160
Execution of court orders	Equal variances assumed	4.401	.039	3.060	94	.003	.838	.274	.294	1.382
	Equal variances not assumed			3.353	82.975	.001	.838	.250	.341	1.336
Response from police services	Equal variances assumed	3.112	.081	2.449	94	.016	.729	.298	.138	1.320

	Equal variances not assumed			2.687	83.277	.009	.729	.271	.189	1.268
Access to legal assistance	Equal variances assumed	1.590	.210	1.835	94	.070	.567	.309	-.047	1.181
	Equal variances not assumed			1.769	58.827	.082	.567	.321	-.074	1.209
Cost of legal services	Equal variances assumed	12.240	.001	1.408	94	.162	.371	.263	-.152	.894
	Equal variances not assumed			1.579	87.250	.118	.371	.235	-.096	.838

(Sig at 0.05; 2-tailed)

Appendix 11: T-test for the differences in mean scores of the four main external environmental factors with respect to SMEs with ≤ 6 years of operation and SMEs with > 6 years of operation

Independent Samples Test

Environmental Factors		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Economic Factors	Equal variances assumed	.703	.404	.103	94	.918	.13826	1.34692	-2.53607	2.81260
	Equal variances not assumed			.103	93.784	.918	.13826	1.33947	-2.52137	2.79789
Political/Institutional Factors	Equal variances assumed	.432	.513	1.479	94	.142	1.55130	1.04889	-.53129	3.63390
	Equal variances not assumed			1.486	93.957	.141	1.55130	1.04425	-.52209	3.62470
Socio-cultural Factors	Equal variances assumed	.673	.414	.367	94	.714	.78696	2.14244	-3.46690	5.04082
	Equal variances not assumed			.365	89.832	.716	.78696	2.15437	-3.49319	5.06711
Legal Factors	Equal variances assumed	4.911	.029	.866	94	.389	1.32870	1.53451	-1.71811	4.37550
	Equal variances not assumed			.876	90.150	.383	1.32870	1.51603	-1.68310	4.34049

(Sig at 0.05; 2-tailed)

Appendix 12: T-test for the differences in mean scores of the four main external environmental factors with respect to SMEs with ≤ 10 employee and SMEs with > 10 employees

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Economic Factors	Equal variances assumed	3.644	.059	-1.390	94	.168	-1.88529	1.35625	-4.57816	.80758
	Equal variances not assumed			-1.339	70.783	.185	-1.88529	1.40783	-4.69258	.92200
Political/Institutional Factors	Equal variances assumed	.415	.521	1.675	94	.097	1.78138	1.06349	-.33021	3.89296
	Equal variances not assumed			1.689	84.152	.095	1.78138	1.05457	-.31570	3.87845
Socio-cultural Factors	Equal variances assumed	.959	.330	.058	94	.954	.12551	2.18075	-4.20443	4.45544
	Equal variances not assumed			.061	93.905	.951	.12551	2.04552	-3.93597	4.18698
Legal Factors	Equal variances assumed	1.935	.168	.837	94	.405	1.30634	1.56127	-1.79360	4.40628
	Equal variances not assumed			.791	65.403	.432	1.30634	1.65129	-1.99114	4.60382

(Sig at 0.05; 2-tailed)

Appendix 13: T-test for the differences in mean scores of the four main external environmental factors with respect to manufacturing and non-manufacturing SMEs

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Economic Factors	Equal variances assumed	.536	.466	2.063	94	.042	2.85859	1.38576	.10713	5.61004
	Equal variances not assumed			2.125	70.672	.037	2.85859	1.34533	.17587	5.54131
Political/Institutional Factors	Equal variances assumed	.198	.658	-1.604	94	.112	-1.76623	1.10103	-3.95234	.41988
	Equal			-	63.47	.117	-1.76623	1.11101	-	.45362

	variances not assumed			1.590	4				3.98609	
Socio-cultural Factors	Equal variances assumed	2.582	.111	.448	94	.655	1.00866	2.25265	-3.46403	5.48135
	Equal variances not assumed			.393	46.543	.696	1.00866	2.56336	-4.14949	6.16681
Legal Factors	Equal variances assumed	1.195	.277	-2.322	94	.022	-3.65945	1.57586	-6.78837	-.53054
	Equal variances not assumed			-2.508	80.129	.014	-3.65945	1.45930	-6.56347	-.75543

(Sig at 0.05; 2-tailed)

Appendix 14: T-test for the differences in mean scores of the four main external environmental factors with respect to SMEs who will decide to invest again and SMEs who will not invest again

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Economic Factors	Equal variances assumed	.558	.457	-1.179	94	.241	-1.65801	1.40642	-4.45049	1.13447
	Equal variances not assumed			-1.133	58.365	.262	-1.65801	1.46328	-4.58669	1.27067
Political/Institutional Factors	Equal variances assumed	2.882	.093	2.672	94	.009	2.87446	1.07589	.73825	5.01067
	Equal variances not assumed			2.963	85.274	.004	2.87446	.97012	.94569	4.80323
Socio-cultural Factors	Equal variances assumed	.084	.773	.516	94	.607	1.16162	2.25187	-3.30952	5.63275
	Equal variances not assumed			.534	71.789	.595	1.16162	2.17376	-3.17192	5.49515
Legal Factors	Equal variances assumed	1.504	.223	3.055	94	.003	4.72150	1.54553	1.65282	7.79018
	Equal variances not assumed			3.342	82.710	.001	4.72150	1.41260	1.91175	7.53125

(Sig at 0.05; 2-tailed)