INVESTMENT PROMOTION:
A COEGA DEVELOPMENT CORPORATION
PERSPECTIVE

TP Maduna

2015

INVESTMENT PROMOTION:

A COEGA DEVELOPMENT CORPORATION PERSPECTIVE

by

Thembinkosi Penford Maduna

submitted in fulfilment of the requirements for the degree

MASTER OF COMMERCE

In the Department of Business Management,
Faculty of Business and Economics Sciences of the
Nelson Mandela Metropolitan University

February 2015

Supervisor: Ms N. Oosthuizen

Co-supervisor: Dr J. Krüger

DECLARATION

I, *Thembinkosi Penford Maduna*, hereby certify that this dissertation*, Investment Promotion: A Coega Development Corporation Perspective,* for the degree of Master of Commerce, is my own work, and that it has not been previously submitted for assessment or completion of any postgraduate qualification to another university or for another qualification.

_____   _____

Thembinkosi Maduna   Date

ACKNOWLEDGEMENTS

Grateful thanks are extended to all those individuals and firms who contributed to the successful completion of this study. In particular, the assistance of the following are acknowledged:

- My supervisor and co-supervisor, Ms Nadine Oosthuizen and Dr Janine Krüger for their passion, commitment, constant encouragement and guidance in difficult times.

- Dr Jacques Pietersen for conducting the statistics for this study.

- Helen Allen for conducting the language editing and proofreading the study.

- The respondents who supplied empirical data used in the research.

- Mr Chris Mashigo, CDC Business Development Executive Manager, for his constant support of the study.

- Mr Themba Koza, CDC Operations Executive Manager, for his insights and business acumen.

- My family and friends for their continuous support and patience.

- And lastly, most importantly, our Heavenly Father. For it says in James 2:3 *knowing that the testing of your faith produces patience.*

ABSTRACT

In March 2002, the Coega Development Cooperation (CDC) announced that the infrastructure design was complete, and the Coega Industrial Development Zone (IDZ) was declared the first IDZ in South Africa. The Coega IDZ was established to improve the delivery of infrastructure in the Eastern Cape by addressing skill shortages, unemployment, constrained planning and project management capacity, under-expenditure, sub-standard infrastructure, and inefficiencies that characterise delivery of infrastructure by government in South Africa generally and the Eastern Cape Province in particular. In the process, socio-economic development and transformation in the Eastern Cape and South Africa as a whole will be advanced.

The primary objective of the study was to investigate the extent to which the various determinants of foreign direct investment (FDI) influence the investment promotion strategy (IPS) used by the CDC, and how these determinants can be used in the IPS to increase the number of signed investors at the CDC. An empirical investigation was undertaken to establish how the independent variables, namely property, infrastructure, economic aspects for exports, and incentives, can influence the intervening variable, IPS, and how the IPS can be used to increase the number of signed investors at the Coega IDZ (dependent variable). From a comprehensive literature review, a hypothetical model was developed to test the relationships between the independent, intervening, and dependent variables.

A quantitative research paradigm was adopted to seek the perceptions of signed investors at the CDC regarding the determinants of the IPS and how these influence the decision to locate at the CDC by collecting and analysing data. A survey was conducted with the aid of a structured self-administered questionnaire distributed to a sample of signed investors at the CDC. A combination of convenience and judgemental sampling was used to obtain a final sample comprising of 205 respondents from a total of 30 firms with signed lease agreements with the CDC. The validity of the measuring instrument was confirmed by using exploratory factor analysis. The Cronbach's alpha values for reliability

were calculated for each of the factors identified during the exploratory factor analysis.

Pearson product moment correlation coefficients were used to determine the associations between the variables, while multiple regression analysis was used to determine the significance of the relationships hypothesised between the independent, intervening, and dependent variables. Statistically significant relationships were found between the independent variables location, basic infrastructure, incentives for land and buildings, electricity, and incentives for export and the intervening variable IPS, and between the intervening variable IPS and the dependent variable, the number of signed investors at the CDC. T-tests were performed to determine whether differences existed between the demographic variables and the independent, intervening, and dependent variables. Cohen's d values were calculated in order to assess the practical significance of the differences between the mean scores of tested relationships. Practical significant differences were found between the demographic variable operational/non-operational investors and exporting environment and electricity and between South African/non-South African investors and location, basic infrastructure, exporting environment, incentives for exports, and number of signed investors.

The empirical investigation established and confirmed that the number of signed investors at the CDC depends largely on the determinants of the CDC IPS. Important aspects such as providing timeous investment promotion information, diversification of lead generation into various sectors and industries, a clear unique selling proposition, a rigorous investor outreach programme, a cross-functional business development and commercial team, and other CDC-combined efforts towards investment promotion can lead to an increased number of signed investors at the CDC. However, the IPS needs to improve in the integration of investment promotion efforts from both a pre- and post-investment perspective to facilitate the growth of the number of signed investors at the CDC.

KEYWORDS: determinants of foreign direct investment, foreign direct investment, investment promotion strategy, CDC and IDZ.

TABLE OF CONTENTS

PAGE

CHAPTER 1
INTRODUCTION AND BACKGROUND TO THE STUDY

TABLE OF CONTENTS (cont)

TABLE OF CONTENTS (cont)

TABLE OF CONTENTS (cont)

TABLE OF CONTENTS (cont)

CHAPTER 6

EMPIRICAL RESULTS

TABLE OF CONTENTS (cont)

CHAPTER 7
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

LIST OF FIGURES

LIST OF FIGURES (cont)

LIST OF TABLES

PAGE

LIST OF TABLES (cont)

LIST OF TABLES (con)

LIST OF ABBREVIATIONS

ABBREVIATION	FULL NAME
CCA	Customs Controlled Area
CDC	Coega Development Corporation
DTI	Department of Trade and Industry
FDI	Foreign direct investment
FDIRE	Foreign Direct Investment Real Estate
IDC	Industrial Development Corporation
IDZ	Industrial Development Zone
IPA	Investment Promotion Agency
IPAP	Industrial Policy Action Plan
IPAS	Investment Promotion Advisory Sub-Committee
IPS	Investment Promotion Strategy
LDC	Least Developed Countries
MNE	Multinational Enterprises
ODI	Outward Direct Investment
R&D	Research and development
SARS	South African Revenue Service
SEZ	Special Economic Zones
SMME	Small medium micro enterprises

CHAPTER 1
INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION TO THE STUDY

An Industrial Development Zone (IDZ) is defined as a purpose built, industrial estate linked to an international air or sea port, which might contain one or multiple Customs Controlled Areas (CCAs) (South African Revenue Service, 2010). The industrial estate is tailored for manufacturing and storage of goods to boost beneficiation, investment, economic growth and, most importantly, the development of skills and employment in these regions. A port (air or sea) is a place appointed or approved by the Commissioner of the South African Revenue Service (SARS) under the Customs and Excise Act, 1964 (Act 91 of 1964), through which goods may be imported or exported (South African Revenue Service, 2010). Jun-Kwon and Valentine (2005:6) describe an IDZ as having above-average business infrastructure, more flexible business regulations, offshore location, focus on exports, attractive incentive packages, and public ownership and management.

There are a number of reasons why IDZs are required in developing countries (Johnson, 2010:919). The sub-Saharan Africa region has failed in foreign direct investment (FDI) and Bilateral Investment Treatises (BITs). The first reason for this is that most of the BITs that have been signed by African countries in the past were geared towards the extraction sector. The extraction industries are then subject to commodity prices, which fluctuate, resulting in gains being offset by losses. The second reason is that African countries, particularly least developed countries (LDCs), for example Malawi, Mozambique and Zambia, have failed to attract foreign investment. FDI will only promote meaningful development if the economic growth it fuels is sustainable (Johnson, 2010:920).

Dah and Khadijah (2010) found a positive relationship between FDI flows and locational attraction. Djokoto (2012:48) describes locational attraction as natural resources or created endowments within the land which attracts FDI, into the specific location. These include oil, coal, precious metals and stones. Natural resources have attracted more FDI than market size in the case of Africa. The

availability of natural resources (oil) and its ability to attract foreign investment have not guaranteed economic growth. The establishment of appropriate institutions, mechanisms and policies would ensure efficient use of oil revenues for sustained economic growth (Djokoto, 2012:46).

It is important to note that locational attraction is not the only predominant attracting force of FDI. Amadasun and Ojeifo (2011:135) list some of the other predominant attractors of FDI in Africa namely:

- natural resources seeking investments which aim to exploit the natural resources endowment of the continent;
- market-seeking investments, aiming to access new markets that are attractive as a result of size and/or growth;
- efficiency-seeking investments, aiming to take advantage of the special features in certain areas, such as the cost of labour, skills of the labour force, quality and efficiency of infrastructure; and
- strategy-seeking investments which include acquisition of local companies, market knowledge, pre-empting market entrance by competitors, and pre-empting of acquisition by local firms by competitors.

Since the 1970's, FDI inflow in sub-Saharan Africa has been rather small in comparison to the rest of the world. FDI inflow in Africa stagnated at R5 billion in 1970 and increased significantly in the mid 1990's. In the 21st century FDI improved meaningfully compared to the period of 1970 to 1990. In 2001, sub-Saharan Africa received $14.3 billion in investments from global FDI (Amadasun & Ojeifo, 2011:136). From 2000 to 2004, FDI improved strongly, not in response to high commodity prices, but as a result of macroeconomic stability. Sub-Saharan Africa attracted about $12 billion of FDI in the period 2000 to 2002. This was equivalent to approximately 3% of the global total of attracted FDI by developed and developing countries (Ndikumana & Verick, 2008:715). Figure 1.1 illustrates the inflow of FDI to sub-Saharan countries from 1970 to 2004.

FIGURE 1.1:   FDI INFLOW TO SUB-SAHARAN COUNTRIES FROM 1970 TO 2004
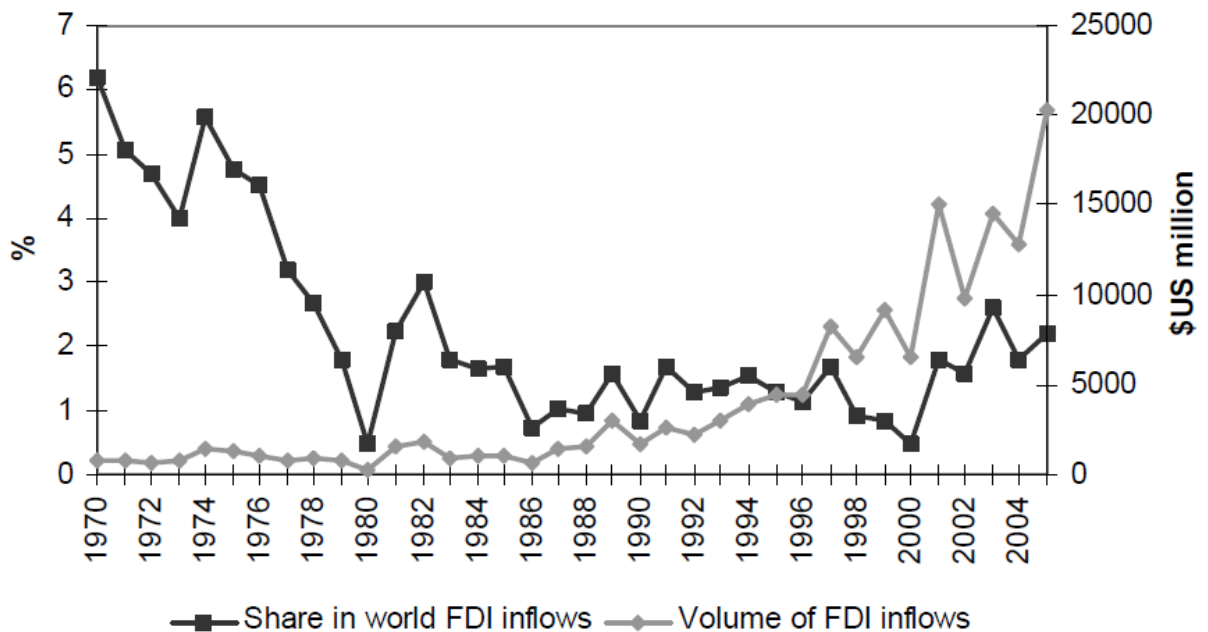
Source: Adapted from Ndikumana and Verick (2008:715)

From Figure 1.1 it is clear that the region's share in global flows of FDI increased from 0.5% in 2000 to 2.2% in 2004. The highest share FDI to sub-Saharan countries, however, was in 1970 when the total inflow of FDI peaked at 6.2%. The highest volume recorded between 2000 and 2004 was $20 billion of FDI inflows for sub-Saharan countries in 2004.

The following is a brief background to the study to highlight the reason and the importance of the study.

1.2   BACKGROUND TO THE STUDY

According to Jun-Kwon and Valentine (2005:6), IDZs have four main objectives namely:

- to provide jobs and create income;
- to generate foreign exchange earnings;
- to attract FDI; and
- to engage in technological transfer.

In South Africa, the CDC as an IDZ is particularly important for a number of reasons. According to the Coega Development Corporation (2013b), the Coega IDZ was established to improve the delivery of infrastructure in the Eastern Cape by addressing skill shortages, unemployment, constrained planning and project management capacity, under-expenditure, sub-standard infrastructure, and inefficiencies that characterise delivery of infrastructure by government in South Africa generally and the Eastern Cape Province in particular. In the process, socio-economic development and transformation within the Eastern Cape and South Africa as a whole will be advanced.

In March 2002, the Coega Development Cooperation (CDC) announced that the infrastructure design was completed and the Coega IDZ was declared the first IDZ in South Africa. In July 2002 the construction process of the Coega IDZ commenced. In 2007 Dynamic Commodities was the first investor to operate in the Coega IDZ. CDC signed a long-term lease agreement with the Nelson Mandela Bay Municipality (NMBM) to take over the management of the Nelson Mandela Logistics Park (Coega Development Corporation, 2008). During the 2007/8 financial year, the CDC signed 15 investors, and had an investment value that exceeded R30 billion. The CDC employed approximately 22 000 people, registered over 79 000 employees for employment, invested in excess of R31 million in training programmes, and awarded contracts in excess of R1.3 billion (Coega Development Corporation, 2009). In 2008, trial operations at the deep water port known as the Port of Ngqura, confirmed readiness of operations and during September 2008 the first ship docked at the Port of Ngqura. In 2009, there was an increase in the investment value of managed investors by the CDC. The number of operating tenants at both the Coega IDZ and Nelson Mandela Logistics Park (NMLP) also increased by 25% during the 2009/10 financial year. General Motors South Africa (GMSA) (IDZ), Coega Dairy (IDZ), Cape Concentrate (IDZ), Benteler AG (NMLP), Innowind (IDZ) and Electra Winds (IDZ) are some investors that were signed between 2009 and 2011 (Coega Development Corporation, 2012).

According to Vilakazi (2013:34), there have been three major investments at the CDC in the first half of the 2011/12 financial year. The first is a R634 million

investment by Afrisam to establish a Greenfield cement milling and blending plant, which will result in 400 construction and 90 operational jobs. The second is a joint partnership by Famous Brand and the Coega Dairy Company to the value of R45 million, resulting in the creation of 49 jobs. The third is an investment of R95 million for the full depot service by APM Terminals, creating 20 fulltime jobs and 15 seasonal jobs. These types of investments are important as they come from vastly different industries (cement, agro-processing and logistics) and are possibly attracted by one or a number of FDI determinants existing in the Coega IDZ.

The next section consists of a brief literature review of some marketing concepts, investment promotion strategies, determinants of the investment promotion strategy (IPS), and FDI in South Africa. A discussion on investment promotion drivers will then follow.

1.3 BRIEF LITERATURE REVIEW OF THE MAIN CONCEPTS

The following section will provide a brief background on some of the marketing concepts and investment promotion strategies. The determinants of the IPS will be discussed. Reference will also be made to FDI theory and previous research on FDI trends in South Africa. The investment promotion drivers will also be discussed.

1.3.1 MARKETING FUNDAMENTALS

According to Warner (1997:429), there are many definitions of marketing, but all have a fundamental aim of satisfying a need, with the use of a product. Definitions that view marketing as a concept or business philosophy, or a social exchange process involving willing consumers and producers, give some distinction between selling and marketing. According to Lamb, Hair, McDaniel, Boshoff and Terblanche (2004:5), marketing has two facets. Firstly it is a philosophy, an attitude, a perspective, and a management orientation that highlights customer satisfaction. Secondly, marketing is a set of activities used to implement this philosophy. The key to achieving firm's goals consists of determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors (Dorrian, 2005:173). On a broader scope, international marketing involves making one or more marketing-mix decisions across national boundaries.

On a much wider and broader scope, international marketing involves a firm establishing manufacturing facilities overseas and co-ordinating marketing strategies across the world (Doole & Lowe, 2001:7). Doole and Lowe (2004:7) further distinguish three different levels of marketing:

- domestic marketing which involves the manipulation of controllable variables such as price, advertising, distribution and the product within a country;
- international marketing which involves operating in different foreign countries where uncontrollable variables differ, and controllable variables (cost and price structures) differ between one market and another; and
- global marketing which is a larger and more complex international operation.

The role of international marketing is worth noting as it encompasses all marketing efforts in foreign countries and involves the recognition of environmental differences, which include foreign trade analysis (Johansson, 2006:11). Johnston and Beaton (1998:9) define international marketing as the process that brings about the exchange of goods or services against value, which is usually in the form of money and includes market research, advertising, promotion, and after-sales as well as selling in more than one country. International marketing cannot be implemented in an aggregated fashion within the firm. The firm has to disaggregate the functions into fundamental activities that have direct contact with the customer. The disaggregation does not only refer to marketing and sales, but also to manufacturing, logistics, procurement, and other support functions (Bartlett, Buzzell & Quelch, 1992:31). At the CDC, the disaggregation is also applicable because the campaign to attract new investment in the Coega IDZ should be a theme of the entire firm and not just of business development. Supporting functions such as finance and investor services should be included.

Since the study aims to understand the IPS of the CDC, the following section will explore promotion in general, and a brief discussion of investment promotion strategies will follow. The theory of FDI and FDI in South Africa will also be discussed.

1.3.2   PROMOTION

'Promotion' is one of the P's found in the traditional marketing mix (product, price, place and promotion). The word 'promotion' in the business environment means to motivate a customer to action. Lamb *et al.* (2004:314) confirm this by stating that promotion is communication by marketers that informs, persuades and reminds potential buyers of a product in order to influence their opinion or elicit a response. A promotion strategy is a plan that seeks to optimise the elements of promotion, namely, advertising, publicity, personal relations and sales promotion. Promotion management employs a variety of tools for this purpose, namely, advertising, personal selling, sales promotion, publicity, and point of purchase communication (Shimp, 1990:7-8). In addition, these tools can be connected to the three modes of marketing which are illustrated in Figure 1.2.

FIGURE 1.2:   THE THREE MODES OF MARKETING
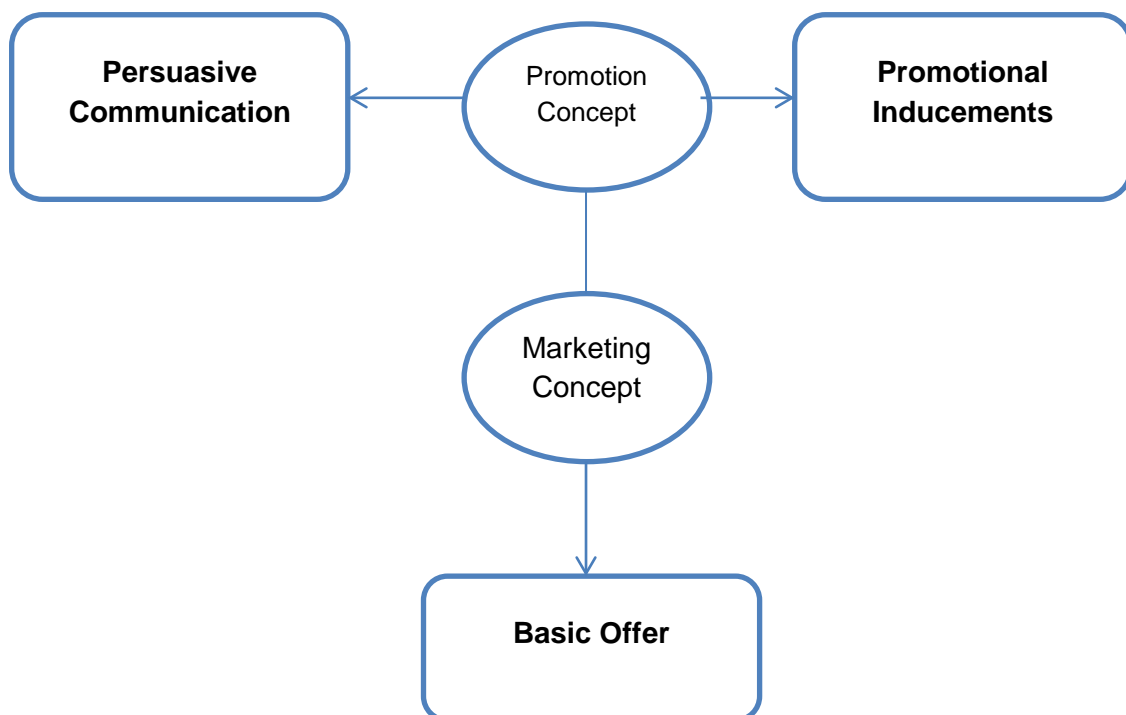
Source: Adapted from Shimp (1989:14)

In Figure 1.2, the first mode is the basic offer which is incorporated in the marketing concept, the second and third being persuasive communication and promotional inducements which are linked to the promotion concept. Promotional inducements comprise extra substantive benefits beyond the benefits of the basic

offer intended to motivate customer actions. A common term amongst marketers for promotional inducement is 'sales promotion' (Shimp, 1990:14-15). Promotion is becoming one of the most commonly used elements of the marketing mix by government. It can either be used internally (personnel in the government unit) or externally (to the rest of the public). One of the areas of promotion is culture and cultural heritage. Promotion of cultural heritage can be a resource to strengthen the region and improve economic growth (Biernacka-Ligieza, 2011:1004). Improving economic growth of a particular region comes at a price, and the prevailing market in the current business environment is generally concentrated and saturated. Firms are forced to invest significant resources in marketing activities in order to get meaningful results. Investments in media are becoming very expensive, therefore in the last decade, the ratio of investments on media is shifting towards the point of sales promotional activities (Coric, 2011:271).

The next section explores the determinants of investment promotional strategies available to countries seeking to attract FDI.

1.3.3 DETERMINANTS OF FOREIGN DIRECT INVESTMENT

According to Hymer (1976:43), ownership advantages are one of the major determinants of FDI. The author argues that "monopolistic advantages" are the main reason Multinational Enterprises (MNEs) entered foreign markets, because they needed to sustain their monopolistic positions. Lunn (1980:94) claimed that market size and market growth were important determinants of FDI, and tariff barriers were also considered. Empirical studies showed that market size, market growth and trade barriers could potentially be important determinants of FDI and should be incorporated into theoretical models (Faeth, 2009:171). In general, one can distinguish between three main types of investment incentives that could be potential determinants of FDI, namely, fiscal incentives (profit-based, capital investment-based, labour-based, sales-based, value-added-based, import-or export-based, and incentives based on particular expenses); financial incentives (government grants, government credits at subsidised rates, government equity participation and government insurance at preferential rates) and other incentives (subsidised dedicated infrastructure, subsidised services, market preferences and preferential treatment on foreign exchange) (Faeth, 2009:183,184). These

potential determinants of FDI are the framework through which investment promotion practitioners craft their IPS to various targeted foreign markets. In China, for example, foreign direct investment real estate (FDIRE) is dictated by international customers who pursued local profit-making opportunities in China. The customers avoid high financing and labour costs, but prefer provinces with high housing prices. Therefore FDIRE in China responds to the provincial differences in land and housing commercialisation (Wang, Cheng & Confei, 2011:268). Apart from high costs in financing and labour avoided by the Chinese market, the size and price of the land play a major role in the international customer investment decision process which considers economic determinants of FDI. Appleyard, Field and Cobb (2008:235) divided economic determinants into three categories, namely, market-seeking FDI, resource-seeking FDI and efficiency-seeking FDI. In addition they noted that the policy framework and business facilitation efforts drive economic determinants. After-investment services, market growth, and per capita income, were described as part of the determinants to host country determinants of investment flows.

The following section will briefly explore the two main types of investment promotion strategies available to investment promotion practitioners.

1.3.4   TYPES INVESTMENT PROMOTION STRATEGIES

A portfolio through which governments aim to attract FDI inflows can be constituted as investment promotion. These portfolio activities include advertising, investment seminars and missions, participation in trade shows and exhibitions, distribution of literature, one-to-one direct marketing efforts, facilitating prospective investor visits, matching prospective investors with local partners, assistance in obtaining permits and approvals, preparing project proposals, conducting feasibility studies, and servicing investors whose projects have become operational (Wells & Winnt, 2000:2).

Djokoto (2012:47) identifies two broad investment promotion strategies, namely attracting all types of investment (mass approach) and targeting (focusing on priority areas). The mass approach requires Investment Promotion Agency (IPA) staff to be involved in all types of affairs and promote the country as a good place

to do business. Targeting, on the other hand, requires participation in affairs that are specific to each industry. It is considered to be a better strategy by investment promotion practitioners. The reason for this is that IPAs can tailor the message of why the country is ideal for location of that targeted industry. In addition, a tailored message delivered to a narrow audience is much more effective than general investment activities (Harding & Jarvorcik, 2011:1445).

Harding and Javorcik (2011:1446) categorise investment promotion activities into four groups, namely, national image building, investment generation, investor servicing, and policy advocacy. Image building is geared towards building a perception that the country is an attractive location for FDI. Investment generation is the identification of potential investors who may be interested in setting up operations in that country, crafting a strategy to contact them, and starting a conversation to have them commit to an investment project. Investor servicing deals with assisting investors to analyse business opportunities, starting a business and maintaining it. Policy advocacy involves efforts leading to improved quality of the investment climate, and identifying the views of the private sector in this area (Harding & Javorcik, 2011:1447).

In the CDC context, three of the investment promotion activities, namely investment generation, investor servicing, and policy advocacy, are supported by three auxiliary business units. Figure 1.3 indicates the functions supporting business units played in supporting the IPS of the CDC from 2008 to 2013.

FIGURE 1.3:   SUPPORTING BUSINESS UNITS TO THE CDC FIVE-YEAR STRATEGY (2008/9-2012/13)
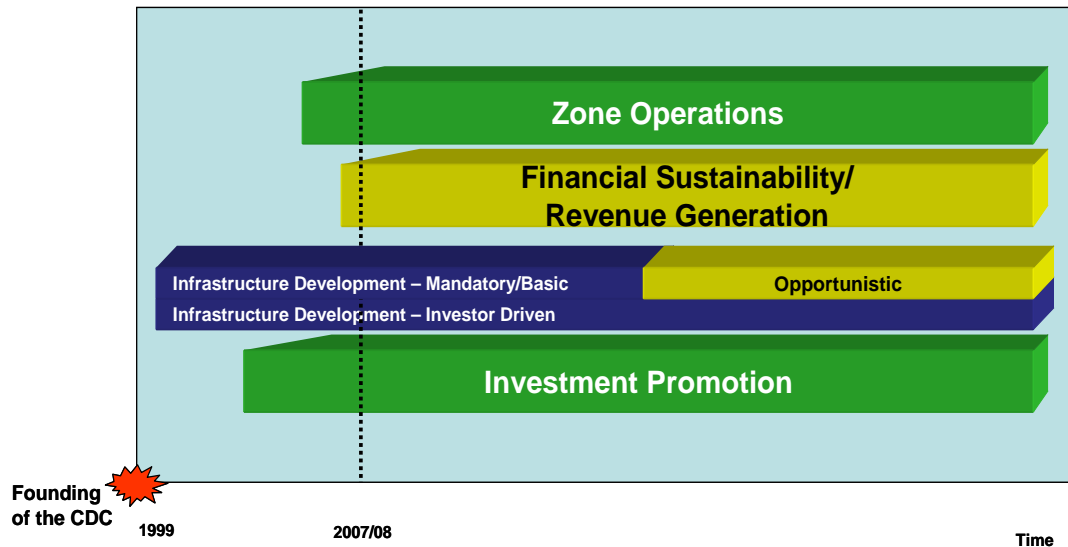
Source: Adapted from Tiya (2008:5)

From Figure 1.3 it is clear that the CDC's IPS is supported by three main units, namely the zone operations, revenue generation, and infrastructure development.

Having briefly discussed the two types of investment promotion strategies, it is important to provide a brief overview of some literature on FDI, which draws partly on macroeconomic theory and trade, as well as microeconomic theory and industrial economics.

1.3.5   FOREIGN DIRECT INVESTMENT THEORY

Dunning (1977:396; 1988:3) states that the extent, geography, and industrial composition of foreign production undertaken by MNEs is determined by three sets of interdependent variables (ownership, location and internalisation) which themselves, comprise three components of three sub-units.

This is known as the Dunning's Eclectic Paradigm, and the mathematical function is as follows (Dunning, 1977:48):

FDI = ƒ (O, L, I)   [Equation 1]

where

O is ownership

L is location

I is internalisation

Ownership, location and internalisation are key competitive advantages in the paradigm. The 'ownership' referring to a firm is a specific competitive advantage known as 'knowledge capital'. Some examples of this are: human capital (managers), patents, technologies, brand, and reputation. This capital can be replicated in different countries without losing its value, and is easily transferred within the firm without high transactional costs (Dunning, 2001:173-174). 'Location' refers to advantages such as producing close to final consumers, saving transport costs, obtaining cheap inputs, and jumping trade barriers. 'Internalisation' is the extent to which an investing firm can create and exploit their core competencies given the locational attractions in the different countries or regions. Such activities include how a firm buys and sells in the open market, integrating intermediate products, and outright buying of foreign corporations (Djokoto, 2012:48). Dunning's Eclectic Paradigm is relevant in the sense that it cuts through the three levels (micro, market and macro) of the economy, and tries to justify domestic investment as a possible determinant of FDI through internalisation.

The following section will provide a brief overview of the history of South Africa in attracting FDI.

1.3.6   FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA

South Africa's growth path with regard to Gross Domestic Product (GDP) differs from its Southern African Development Community (SADC) neighbours. This is mainly because of the different development stages of the neighbouring countries. The South African government's approach to this has been Spatial Development Initiatives (SDIs) (Heese, 2000:389). According to Heese (2000:390), the following SDIs could have contributed to the attraction of FDI in South Africa between 1994 and 1999:

- Corporate tax rate (decreased from 35% to 30%);
- A number of sectors were dealt with by cluster processes;
- The Industrial Development Corporation (IDC) was restructured, which may have led to preferential finance schemes for the future; and
- Provincial investment agencies have been established, such as Investment South Africa, to facilitate investor entry into the country.

Figure 1.4 provides a summary of the top 10 African countries that benefited from FDI to Africa between 2003 and 2010.

FIGURE 1.4:   NEW FDI PROJECTS ACROSS AFRICA FROM 2003 TO 2010
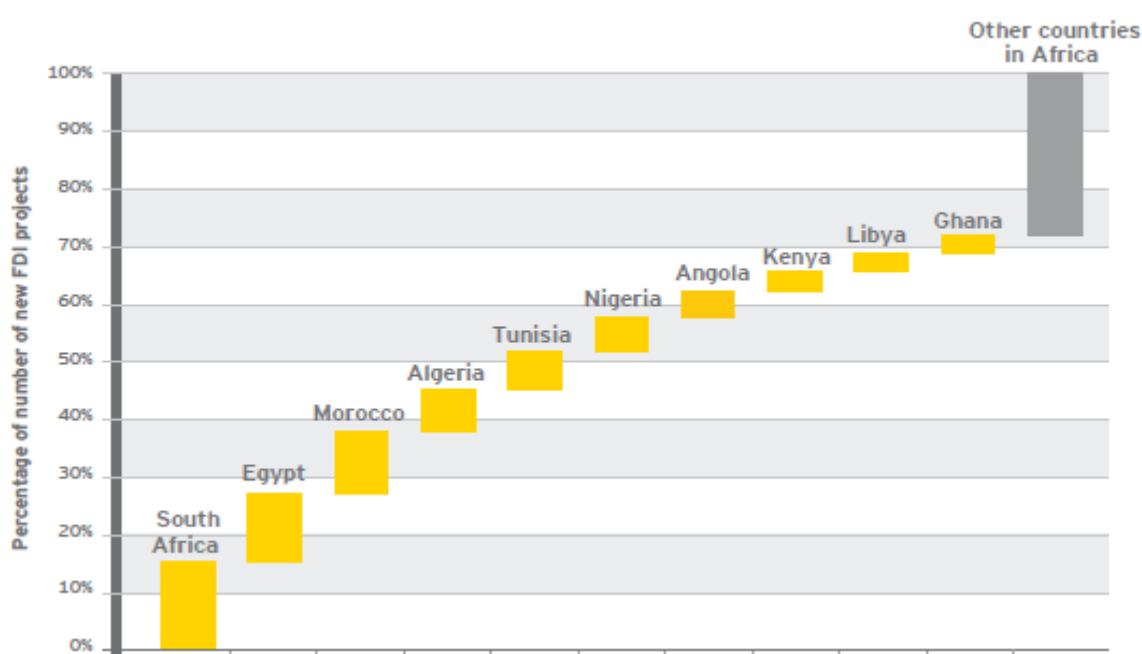
Source: Ernst & Young (2011)

From Figure 1.4 it is clear that approximately 70% of FDI was received by only 10 African countries. South Africa has received the largest percentage of new FDI that was directed to Africa.

In Africa, in general, decisions of location preferences by foreign investors hinge on the agglomeration economies derived from manufacturing and non-manufacturing activities (Rogerson, 2009:423).   According to Rogerson (2009:423), the city of Johannesburg in South Africa offers the most diverse mix of financial and manufacturing activity, which is combined with access to domestic

markets, and is a platform to other regional areas. Gauteng received the bulk of FDI during 1999 compared to the other provinces at regional level. During 1999, two thirds of the FDI was targeted nationally or for the Gauteng province. Kwa-Zulu Natal was the second most popular province for FDI. The Western Cape was third, followed by the Eastern Cape with its motor and components industry (Heese, 2000:394).

It is important to note the type of investment that South Africa received, because this directly impacts on economic growth. The equation below describes the relationship between the type of investment and the national output (Dornbusch, Fischer & Startz, 2004:54):

$Y = AF (K, N)$ [Equation 2]

Where

Y is national output

AF is a factor relating to total productivity

K is capital (new and expansion investment)

N is labour

The equation is known as The Cobb-Douglas Production Function (Dornbusch *et al.,* 2004:54). Table 1.1 summarises the type of investments that occurred in South Africa during the 1994 to 1999 period.

TABLE 1.1:   INVESTMENT TYPE IN SOUTH AFRICA FROM 1994 TO 1999

Type	Percentage
Mergers and acquisitions	60.4%
Expansion	17.3%
New Investment	16.7%
Current Investment	4.5%
Intention	3.1%
Liquidation	-0.6%
Disinvestment	-1.5%

Source: Adapted from Heese (2000:392)

Table 1.1 shows that the type of FDI that was prominent during 1994 to 1999 was mergers and acquisitions, followed by expansions and new investments. New and expansion investments contributed to national income in the form of FDI. Figure 1.5 illustrates the distribution of FDI amongst the various sectors in South Africa.

FIGURE 1.5: **TOP TEN INVESTMENT SECTORS IN SOUTH AFRICA (1994-1999)**
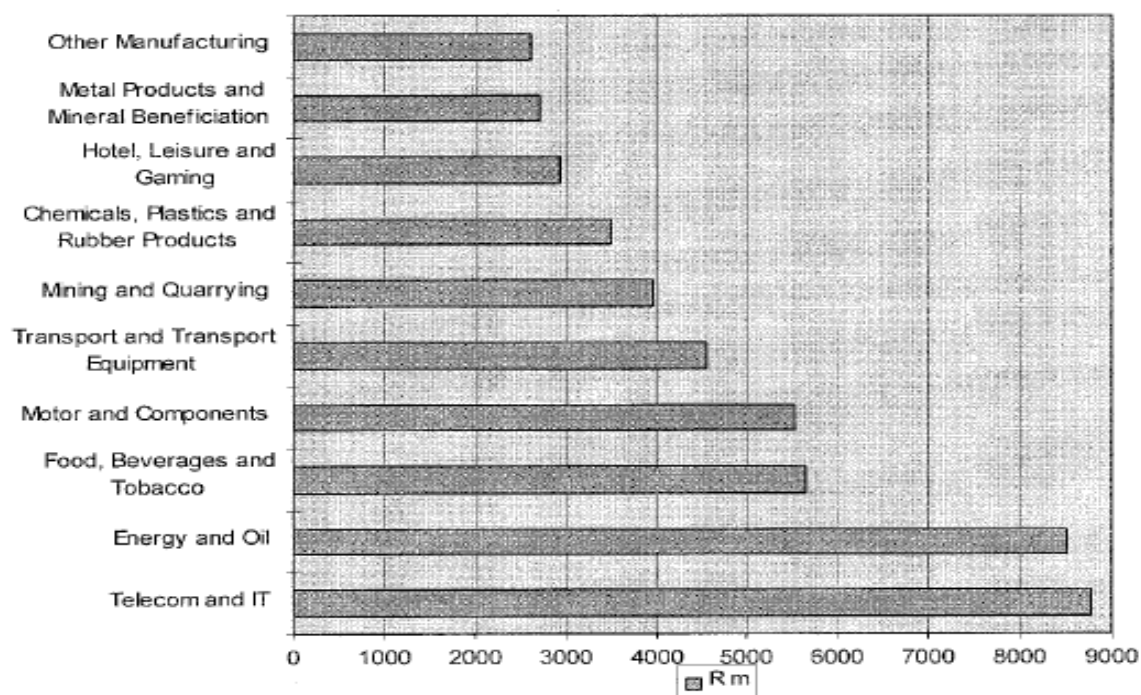
Source: Adapted from Heese (2000:397)

From Figure 1.5 it is clear that Information Communication Technology (ICT) and Energy were the top sectors that received FDI from 1994 to 1999.

The following section will present the problem statement of the study.

1.4   PROBLEM STATEMENT

As previously mentioned, the CDC has managed to attract 15 investors into the Coega IDZ during the 2007/8 financial year. The number of signed investors currently (2013) located in the Coega IDZ stands at 30. Table 1.2 provides an outline of the attracted investments in the Coega IDZ during the 2012/13 financial year.

TABLE 1.2:   INVESTMENTS ATTRACTED IN THE COEGA IDZ DURING THE 2012/13 FINANCIAL YEAR

INVESTMENT ATTRACTED: FDI				JOBS	
Project	**Sector**	**Private Investment**	**CDC Investment Value**	**Operational**	**Construction**
DCD Dorbyl	Energy	R150 000 000	R160 000 000	200	626
FAW	Automotive	R600 000 000	R65 000 000	300	350
AGNI STEEL	Metals	R400 000 000	R7 600 000	100	800
COEGA DAIRY CHEESE FACTORY	Agro-processing	R58 400 000	R24 000 000	49	250
FAMOUS BRANDS	Logistics	R20 000 000	R16 300 000	31	200
Total		R1 228 400 000	R272 900 000	680	2 226

Source: Adapted from Lubisi (2012:2)

From Table 1.2 it can be seen that the CDC has managed to attract five investors that can contribute to the creation of over 600 operational and 2 000 construction jobs. The total investment value of the FDI attracted is in excess of R1 billion.

Since the main drivers of FDI into the Coega IDZ have never been investigated, this causes confusion as to whether the presence of an investor located in the Coega IDZ can be attributed to the current CDC IPS or not. The problem statement arises when one asks the question, "Which determinants were the main drivers of attraction for the FDI outlined in Table 1.2 and previously attracted FDI since inception into the Coega IDZ?" Therefore, how can the CDC use the IPS to attract FDI into the Coega IDZ?

The Coega IDZ has also been receiving less funding from the government since 2010. Figure 1.6 indicates the historical grant funding including Value Added Tax (VAT) received from the Department of Trade and Industry (DTI) to the CDC since inception.

FIGURE 1.6:   **HISTORICAL GRANT FUNDING TO THE COEGA DEVELOPMENT CORPORATION**
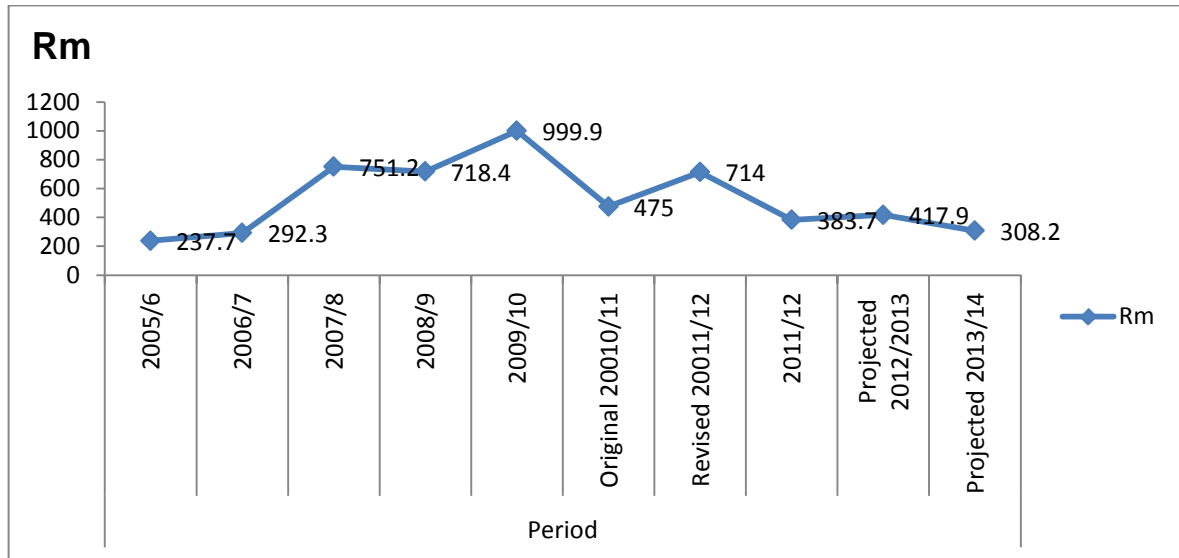
Source: Adapted from Jojo (2011:5)

Grant funding was at its highest during the 2007/8 to 2009/10 period. Since the 2009/10 period, the grant funding has been decreasing steadily, and this deteriorating trend puts further constraint on the implementation plan to reach the intended audience. The lack of grant funding also threatens the goal of the CDC of being the preferred investment destination to potential investors. It is imperative for the Coega IDZ to be able to attract domestic and foreign investment, and populate the IDZ at minimal promotional cost.

Therefore the purpose of the study is to investigate the influence of the determinants of FDI on the IPS, and how the IPS can be used to influence the number of signed investors at the Coega IDZ.

The following section provides an overview of the primary and secondary objectives that emanate from the purpose of the study.

1.5   RESEARCH OBJECTIVES

This section highlights the primary and secondary research objectives of the study.

1.5.1 PRIMARY RESEARCH OBJECTIVE

The primary objective of the study is to investigate whether the various determinants of FDI influence the IPS used by the CDC, and how these determinants can be used in the IPS to influence the number of signed investors.

1.5.2 SECONDARY RESEARCH OBJECTIVES

In order to achieve the primary objective of the study, the following secondary research objectives have been formulated.

- to review literature on IDZs, IPS and FDI in general;
- to review the CDC IPS and other related documentation;
- to empirically test the hypothesised model of the relationships between the determinants of FDI, CDC IPS and the number of signed investors located into the Coega IDZ; and
- to provide recommendations to the Business Development Executive Manager on how to adopt the IPS in terms of the determinants of FDI to increase the number of signed investors by the CDC.

1.6 RESEARCH QUESTIONS AND HYPOTHESES

Research questions and hypotheses arising from the objectives will be discussed in the following sections.

1.6.1 RESEARCH QUESTIONS

Given the purpose of the research and the stated research objectives, a number of research questions are phrased.

- How do the location, price, size and ownership of land influence the CDC IPS?
- How does the price of water and electricity influence the CDC IPS?
- How do exporting, market growth, market size, and labour, influence the CDC IPS?
- How do the after-investment service and incentives influence the CDC IPS?

▪ How can the CDC IPS be used to increase the number of signed investors at the CDC?

1.6.2 RESEARCH HYPOTHESES

Based on the primary objective and the research questions, the following hypotheses are formulated, on the basis of the literature on investment promotion and determinants of FDI.

H_1: There is a significant relationship between *property* and the *CDC IPS*.

H_2: There is a significant relationship between *infrastructure* and the *CDC IPS*.

H_3: There is a significant relationship between *economic aspects for exports* and the *CDC IPS*.

H_4: There is a significant relationship between *incentives* and the *CDC IPS*.

H_5: There is a significant relationship between the *CDC IPS* and *number of signed investors* located into the Coega IDZ.

Figure 1.7 depicts of the hypothesised relationships between the independent (property, infrastructure, economic aspects for exports and incentives), intervening (CDC IPS) and dependent variables (number of signed investors).

FIGURE 1.7: HYPOTHETICAL MODEL OF VARIABLES INFLUENCING THE CDC IPS AND NUMBER OF SIGNED INVESTORS
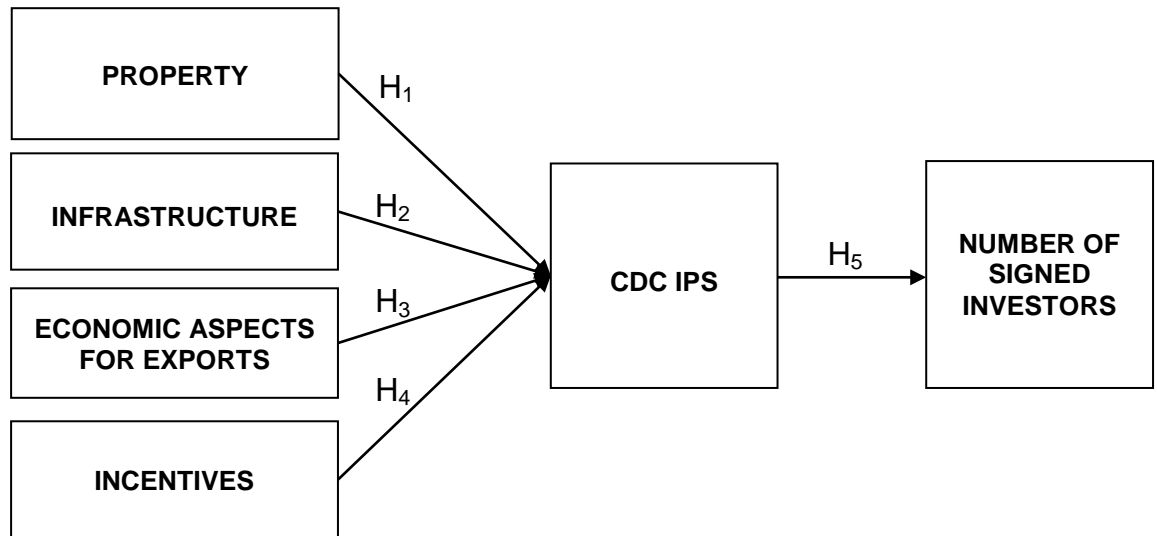
Source: Researcher's own construct

Figure 1.7 suggests that the CDC IPS used at the Coega IDZ is shaped by the four sets of independent variables (determinants of FDI). The hypothesised framework also depicts CDC IPS as having an influence on the number of signed investors located in the Coega IDZ.

The following section presents the research design and methodology which will be used to provide answers to the research questions.

1.7 RESEARCH DESIGN AND METHODOLOGY

The research design for the study will be provided. Thereafter the research methodology will be discussed. The research methodology will have three sub-sections, the first being the research paradigm followed by the research methodology. Next, the method of research will be discussed, followed by the population and sampling methods. Lastly the measuring instrument, along with the data collection methods and analysis approaches, will be outlined.

1.7.1 RESEARCH DESIGN

Hussey and Hussey (1997:114-115) define research design as the science (and art) of planning procedures for conducting studies so as to get the most valid

findings. Before beginning to construct the research design, the research paradigm and research topic of study should already have been determined.

1.7.2   RESEARCH METHODOLOGY

The positivistic paradigm or quantitative approach is defined by Zikmund, Babin, Carr and Griffin (2010:134) as business research that addresses research objectives through empirical assessments that involve numerical measurement and analysis approaches. A quantitative approach seeks to measure concepts with scales that either directly or indirectly provide numerical values. The values can thereafter be used for statistical computations and hypothesis testing. A phenomenological paradigm or qualitative approach essentially involves a researcher's interest in the event that is going to be studied, and the gathering of specific and relevant data that will provide a detailed description of certain events, situations and interactions between certain people and things (Cooper & Schindler, 2003:198). A number of researchers prefer to use a qualitative approach as it is more subjective and exploratory in nature. It also allows researchers to gain an understanding of certain social activities (Collis & Hussey, 2003:13). For the present study, the quantitative research approach will be adopted. This approach will focus on the collecting of secondary and primary data. Secondary data will be in the form of journals, books, the internet, and documentation relating to IDZs, SEZs, FDI and IPS. The reason for the quantitative approach is to be able to build a predictive model which summarises the various FDI determinants that need to be in place in order to increase the number of signed investors. Primary research will be conducted using a questionnaire which will be administered to signed investors located in the Coega IDZ.

The following section will provide an overview of the population, sample, and sampling method to be used in the study.

1.7.3   POPULATION, SAMPLE AND SAMPLING METHOD

Selecting a sample is a basic element of quantitative research. A sample consists of some members of a population. According to Zikmund (2003:369), sampling is the process of using a small number of items or parts of a larger population to make conclusions about the whole population. The population is described as a

body of people or any other collection of items under consideration for research purposes (Hussey & Hussey, 1997:144). For the purpose of the present study, the population is all operating businesses located in the South African IDZs, namely, the East London IDZ, Richards Bay IDZ, Coega IDZ, Saldanha IDZ and OR Tambo IDZ.

Probability sampling is a sampling technique in which every member of the population has a known, nonzero probability of selection. Non-probability sampling is when all units of the sample are selected on a basis of personal judgement or convenience (Zikmund, 2003:379-380). The sample for this study will be drawn by making use of judgemental or purposive sampling, which falls under non-probability sampling. According to Zikmund (2003:382), judgemental sampling occurs when an experienced individual selects a sample based on some characteristic. Judgemental sampling will be chosen for the purpose of this study since all signed investors have the common characteristic of being located at the Coega IDZ which is a requirement set by the researcher. The sample will consist of five respondents for each of the 30 firms signed by the CDC leading to a sample size of at least 150 respondents.

1.7.4 MEASURING INSTRUMENT

The measuring instrument that will be used to collect data will be a self-administered questionnaire and will be tested for validity and reliability. 'Validity' is the extent to which research findings accurately represent what is really happening in a situation (Hussey & Hussey, 1997:57). 'Reliability' is defined by Zikmund (2003:300) as the extent to which measures yield consistent results and are free from error. For the purposes of this study, the measuring instrument will be tested for construct validity. This type of validity involves ensuring that the tests or measures used by the researcher do actually measure or represent what they are supposed to measure or represent (Hussey & Hussey, 1997:58). The questionnaire will be piloted to one investor (one firm with five respondents) located in the Coega IDZ to ensure construct validity. Experts in the field of management will also be asked to complete the questionnaire in order to determine the face validity of the measuring instrument. Exploratory factor analysis (EFA) will be used to determine construct validity (Bruce 2004:195). The purpose

of EFA is to group similar variables under one factor. The statistical method is used to discover and analyse the fundamental construction of large set of variables that is unknown to the researcher (Hair, Anderson, Tatham & Black, 1998:111).

The questionnaire's internal reliability will be measured using the Cronbach's alpha correlation coefficient. Cronbach's alpha was developed by Lee Cronbach to provide a measure on internal reliability of a test or scale. It is expressed as a number between zero and one (Tavakol & Dennick, 2011:53). Table 1.3 outlines the acceptance criteria for the Cronbach's alpha.

TABLE 1.3: CRONBACH'S ALPHA INTERNAL CONSISTENCY GUIDELINES

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

Source: Adapted from Tavakol and Dennick (2011:53)

From Table 1.3 it is clear that the acceptable level for internal consistency is when alpha is above 0.7. According to Hair, Black, Babin and Anderson (2013:123) even though the generally acceptable lower limit for Cronbach's alpha is 0.7, it may decrease to 0.6 for exploratory research. For the purpose of this study, a cut-off of 0.6 will be used.

The questionnaire will be administered during an investors' breakfast which is held quarterly, where all the investors located in the Coega IDZ are invited by the Investor Services Section, which is responsible for the after-investment services for signed investors. During the quarterly breakfast meeting, investors are given an update on new developments within the Coega IDZ. The questionnaire will be structured and employ a five-point Likert scale. Closed-ended questions will be used in the questionnaire. The questionnaire will comprise two sections. The first section (Section A) will request biographical data from the firms located in the

Coega IDZ. Some examples include the type of industry in which the business operates, years located in the IDZ, and period of operation. Section B will explore the reasons for the investors for locating in the Coega IDZ. The reasons will be grouped into four categories, namely property, infrastructure, economic aspects for exports, and incentives. Section B will also explore the effectiveness of the CDC five-year IPS and efficiency in terms of investment-led generation and FDI attraction.

1.7.5   DATA ANALYSIS

Once data is collected, it will be statistically analysed by using statistical packages such as Excel and Statistica to organise, summarise, and present the data in a convenient and informative way. Some of the descriptive statistics that will be used will include numerical techniques such as the mean and standard deviation. Inferential statistics are methods used to draw conclusions or inferences about characteristics based on a sample of data (Keller & Warrack, 2003:3). The Pearson product moment correlation coefficient will also be used to analyse the data to measure the strength of association between the dependent and independent variables. The analysis will include simple and multiple linear regression analysis. Regression analysis is used to predict the value of one variable on the basis of other variables. Any linear relationships that are positive or negative, strong or medium, will be identified and analysed. The two most important characteristics in linear regression are strength and direction (Keller & Warrack, 2003:630-634). Simple and multiple regression analysis will be used to analyse the significant relationships illustrated by the hypotheses in Figure 1.7. T-tests and Cohen's d calculations will also be undertaken to identify and observe whether the two mean values of a population differ and if there is a practical significance (Collis & Hussey, 2009:262).

1.8   **SCOPE AND DELIMITATION OF THE RESEARCH**

The scope of the study will cover the Coega IDZ, in terms of determinants of FDI, the current IPS, and the number of signed investors since inception. A limitation of the study may be the exclusion of the other IDZs found in South Africa. The study is intended to be industry-specific research, and is aimed at giving practical and comprehensive recommendations to the CDC Business Development and

Operations Executive Managers.

1.9   CONTRIBUTION OF THE STUDY

The study will provide a basis from which investment promotion practitioners at the CDC may craft an effective CDC IPS which was not available in the past. The study will also guide investment promotion practitioners to tailor investment promotion messages to specific sectors more efficiently, economically and effectively. The study will also serve as a guide to other upcoming and existing IDZs/SEZs in South Africa of the main determinants of FDI in South African IDZs.

1.10   PROPOSED PLAN OF THE RESEARCH

Chapter 1: Introduction and background to the study

This chapter will describe the scope of the study and the methods used. It will include: an introduction; statement of the problem; the objectives of the study; the purpose of the study, and the description of the research design and methodology.

Chapter 2: An overview of industrial development zones

This chapter will explore the history of free trade zones and the importance of IDZs. An overview of the Coega IDZ will be provided.

Chapter 3: Foreign direct investment and investment promotion

An overview of FDI direct investment will be given. Investment promotion policies will also be discussed. A new development, namely, special economic zones, is addressed. The chapter will conclude with the determinants of FDI that will be investigated.

Chapter 4: The hypothetical model and determinants of FDI

The chapter will outline the chosen determinants of FDI and the hypothetical model of the study.

Chapter 5: Research design and methodology

The chapter will outline the research design, the research methodology, data collection and data analysis of the study.

Chapter 6: Empirical results

The chapter will investigate whether there are any significant relationships between the independent variables, intervening and the dependent variables. A conclusion will also be made as to whether there is a relationship between the CDC IPS and the number of signed investors located in the Coega IDZ.

Chapter 7: Summary, conclusions and recommendations

This chapter will present a summary of the most important findings of the study, a discussion of the recommendations provided, and suggestions for future research.

CHAPTER 2
AN OVERVIEW OF INDUSTRIAL DEVELOPMENT ZONES

2.1   INTRODUCTION

According to City Press (2013), the Industrial Policy Action Plan (IPAP) is based on the need for sustainable, long-term development that is underpinned by higher growth, exports, being labour-intensive, and showing value-adding economic activity in the production sectors, particularly the manufacturing industry. IPAP is derived from the long-term vision of the National Development Plan. The aim of the National Development Plan is to eliminate poverty and reduce inequality. The core of the plan is to increase export capabilities of the country, while creating employment opportunities (National Development Plan Vision for 2030, 2011). Similarly, IPAP focuses on the inclusion of previously disadvantaged people and regions in the process of industrialisation in South Africa. The proposed industrialisation model by the South African government contributes towards industrial development in Africa, and focuses on infrastructure, productive capacity, and regional integration through industrialisation (Department of Trade & Industry, 2011:11). The DTI describes an IDZ as the conduit for creating jobs and the appropriate environment for FDI, domestic investment, and the development of strategic industrial capabilities. In addition IDZs remain central to the South African Government's strategic objectives of industrialisation, employment creation and regional development (Special Economic Zones Bill, 2013). Following the introduction of the IPAP, it is evident that IDZs are important to the South African economy, as well as for achieving the national development goals as set out by the National Development Plan.

The following section will deal with the first secondary objective of the study, which is the history of free trade zones and the importance of IDZs. The objectives of IDZs and how they facilitate social welfare in the designated region will be discussed. The chapter will conclude with an overview of the Coega IDZ.

2.2   THE HISTORY OF FREE TRADE ZONES

Free trade zones were first established 2 000 years ago. They are demarcated areas where special customs and economic procedures are used. Appleyard *et al*.

(2008:228) define a 'host country' as a country receiving FDI and can also be the 'receipt country'. Aspects of the business environment like infrastructure or regulating controls, may be different in the host country, to cater for FDI.

These free trade zones have been adapted to the realities of the local conditions of the host country, and each region has special incentives designed to attract foreign investors (Jun-Kwon & Valentine, 2005:4). According to Western Economic Diversification Canada (2012), the common characteristics of free trade zones are the following:

- **An offshore location:** Firms choose the locations based on where they can get the lowest cost to manufacture.
- **Above average business infrastructure**: Within the zone, foreign investors tend to be provided with above-quality infrastructure and services compared to those available in their countries of origin.
- **Flexible business regulations**: Customs services tend to be streamlined, with much of the red tape eliminated. Labour and business legislations tend to be more flexible to foreign tenants of the zones compared to other business owners in the host country.
- **Attractive incentive packages**: A major component of the free trade zones is the incentive package on offer to pay lower duties and taxes.

Export processing zones (EPZs), SEZs and IDZs are common names associated with free trade zones, and illustrate the type of activities being promoted within the free trade zones. An EPZ is an example of a traditional zone where manufacturing and processing for exports are the main considerations for any firm to operate in. These zones normally attract industries that are labour-intensive. Domestic sales of products from within the zone are limited, even though it can be done. EPZs fall outside customs territory, implying that duties and taxes are calculated in accordance with policies that govern the zone and are different to that of the host country (Amirahmadi & Wu, 1995:828).

SEZs can cover large areas including residential areas, schools, hospitals, and other firm-supporting facilities. SEZs promote FDI by providing a sound business

environment and other incentives. Almost all economic activity is allowed within the zone, and transactions within the zone attract customs taxes and duties (Nel & Rogerson, 2013:205).

There are many other zones, all designated in accordance with the purpose of the zones. All these zones can be combined, to promote the development of a country's economy. The importance of IDZs for the economy will be discussed in the following section.

2.3 THE IMPORTANCE OF INDUSTRIAL DEVELOPMENT ZONES

Smith (2002:3) defines an IDZ as an industrial park where manufacturer-exporters set up production plants for direct sale to foreign wholesalers. Raw materials which directly enter the IDZ are reworked and then exported via sea or air to international markets. Similarly, SARS describes an IDZ as a purpose-built industrial estate linked to an international air or sea port, which may contain one or multiple CCAs (South African Revenue Service, 2010). The industrial estate is tailored for manufacturing and storage of goods to boost investment, economic growth and, most importantly, the development of skills and employment in these regions. A port (air or sea), is a place appointed or approved by the Commissioner of SARS under the Customs and Excise Act, 1964 (Act 91 of 1964) through which goods may be imported or exported (South African Revenue Service, 2010).

Throughout the world, there are more than 3 500 zones of which sub-Saharan Africa's share of the world EPZs is estimated at around 2.6%, and Asia's share is estimated at approximately 25.7% (Tang, 2006:2). The IDZ is a uniquely South African concept and is based on the EPZs, which have been established throughout the world. These two concepts imply the same exemption from import duties, but with the provision that South Africa's labour legislation applies as elsewhere in the country (Demacon Studies, 2009:3). The most important aspect of IDZs is that it facilitates socio-economic welfare and economic growth through the four main objectives highlighted in Chapter 1, namely:

- providing jobs and creating income;
- generating foreign exchange earnings;

- attracting FDI; and

- engaging in technological transfer (Jun-Kwon & Valentine, 2005:6).

These objectives will be discussed in the following sub-section as they contribute to the critical role that IDZs play in the designated region.

2.3.1 UNEMPLOYMENT AND JOB CREATION

Jun-Kwon and Valentine (2005:6) consider that one of the main objectives of an IDZ is the creation of income through job creation in the designated region. Job creation is very important in any economy because it has an effect on the country's disposable income and the unemployment rate. The unemployment rate measures the fraction of the workforce that is out of work and looking for a job or expecting a recall from being out of work (Dornbusch *et al.*, 2004:42). There are two definitions of unemployment that are commonly used. The first is the 'narrow definition' that includes those who are not currently employed, but have looked for a job in the week or four weeks prior to when the unemployment survey was administered. The 'broader definition' encompasses the narrow definition as well as those who did not look for work in the past week or four weeks before the unemployment survey was administered. This definition also includes the 'discouraged' workers (Kingdon & Knight, 2004:199). The discouraged workers are those who have been unemployed for a long time, and have given up seeking for work. The narrow definition is the officially accepted definition of unemployment in the world (Du Toit, 2005:657).

In South Africa there are two main methods of measuring employment and unemployment, namely the October Household Survey (OHS) and Labour Force Surveys (LFS) (Simkins, 2004:258). In both surveys, employment is classified as being either in the formal or the informal sector. According to Kingdon and Knight (2004:198), in 2003 South Africa had one of the highest unemployment rates in the world (42%). The unemployment rate in South Africa averaged 25.26% between 2000 and 2013 (Taborda, 2014). The South African government has set a target of five million jobs by 2020, through the National Growth Plan, which would translate to a reduction from 25% to 15% in unemployment (SA targets 5 million new jobs by 2020, 2010). Table 2.1 provides a country comparison of unemployment for

youth aged 15 to 24 years for 2011.

TABLE 2.1:   COUNTRY COMPARISON: UNEMPLOYMENT FOR YOUTH AGED 15-24 YEARS IN 2011

COUNTRY	UNEMPLOYMENT	YEAR
Bosnia and Herzegovina	57.5%	2011
Macedonia	55.3%	2011
South Africa	49.8%	2011

Source: Adapted from CIA World Fact Book (2013)

From Table 2.1 it is clear that South Africa had the lowest ranking in the category of youth unemployment when compared to Bosnia and Herzegovina (57.5%) and Macedonia (55.3%). Even though the ranking is low in this context, 49.8% is considered to be very high according to the Organisation for Economic Cooperation and Development standards (CIA World Fact Book, 2013).

According to Banerjee, Galiant, Levinsohn, McLaren and Woolard (2008:717), there are three main reasons why unemployment has remained at very high levels in South Africa. The first reason is the high cost of finding a job when comparing African and White employment seekers, which is due to the spatial separation between the business centres and the outlying areas where the majority of Africans reside. The lack of public transport is cited as the main problem in finding a job. The second reason is the failure of the informal sector to provide employment in the outlying areas of African residence. The main contributing factor in this regard is the high cost of starting small firms and formalising them. The third reason for the high unemployment rate is the social grants provided by the South African government. The social security grant tends to support the unemployed members of the household, especially potential young workers (Banerjee *et al.,* 2008:718). Altman (2006:627) simplifies the problem by saying that there are four explanations for the high unemployment rate and slow employment growth in South Africa: rapid labour market entry; rising wage rates; a small informal sector; and insufficient formal sector demand. Rapid labour market entry refers to the entry of the employable in the economy. The rising wage rate refers to the increase of wages that are above the prevailing inflation rate. Nicholson and Snyder (2007:238) define the wage rate as the cost of hiring one

worker for one hour. The informal and formal sectors refer to the informal and formal industries present in the economy.

Banerjee *et al.* (2008:718) conclude that the South African unemployment rate needs immediate policy interventions because it has stabilised, and is unlikely to decrease by itself. Table 2.2 summarises the unemployment rate in South Africa from 1995 to 2005 for the ages 16 to 64 years.

TABLE 2.2:   EMPLOYMENT AND UNEMPLOYMENT RATES IN SOUTH AFRICA (%) FOR AGES 16-64 YEARS FROM 1995 TO 2005

YEAR	NARROW CLASSIFICATION			BROAD CLASSIFICATION	
	Participation	Employment	Unemployment	Participation	Unemployment
1995	51.4 %	43.3 %	15.6 %	60.3 %	28.2 %
1997	48.2 %	37.5 %	22.1 %	60.6 %	38.0 %
1999	55.4 %	41.7 %	24.8 %	69.0 %	39.9 %
2001	59.4 %	41.4 %	30.3 %	72.1 %	42.5 %
2003	56.8 %	40.6 %	28.6 %	70.6 %	42.5 %
2005	57.2 %	41.9 %	26.7 %	71.2 %	41.1 %

Source: Adapted from Banerjee *et al.* (2008:718)

Table 2.2 outlines the substantial increase in the unemployment rate in South Africa from 1995 to 2005, and indicates that the unemployment rate peaked during 2001 and 2003. The table describes the unemployment situation according to the narrow and broad classifications. The broad classification has the highest unemployment and participation rates, implying that the ratio of the labour force and national population was increasing, therefore worsening the problem of unemployment in South Africa. From 1995 to 2005, South Africa had an average year-on-year increase in unemployment of 2.58% (broad classification) and 2.22% (narrow classification). The unemployment rate as at June 2014 in South Africa was 36.1% as per the broad definition (Statssa, 2014).

IDZs are important for the main reason of creating jobs in the economy and often results in a reduction of unemployment in that particular economy. The following section will explore the importance of the generation of foreign exchange earnings in the sub-Saharan Africa region as an objective of IDZs.

2.3.2   FOREIGN EXCHANGE EARNINGS

Jun-Kwon and Valentine (2005:6) highlighted the second main objective of IDZ as the creation of foreign exchange earnings through exporting. The balance of payments of a country keeps record of all economic transactions between the home country and the rest of the world for a specific period, such as a year (Appleyard *et al.*, 2008:456).   A net exporter will have a positive balance of payments. A positive balance of payments has favourable effects on the country's exchange rate. According to Appleyard *et al.* (2008:479), the exchange rate is the price of one currency for another. The financial institution or market that facilitates the exchange of foreign currencies is known as the 'foreign exchange market'. The Law Dictionary (2012) defines foreign exchange earnings as the profit made from exporting and foreign investment, in convertible currency. A foreign investment can also be in the form of human capital. The Business Dictionary (2013) defines foreign exchange earnings as proceeds from the export of goods and services of a country, the returns from its foreign investments, denominated in convertible currencies.

According to Johnson (2010:920), the sub-Saharan Africa region has failed to attract or generate adequate foreign exchange earnings in the past. This could be attributed to an over-reliance on some streams of foreign exchange earnings such as remittances or transfer payments from workers in other countries. Koyame-Marsh (2012:111) acknowledges that workers' remittances represent one of the most important sources of external flows of capital and foreign exchanges for many developing countries. This is particularly true of the sub-Saharan Africa countries where resources are constrained and real output growth is negligible. Louise and Clovis (2012:24) analysed worker remittances as a source of external funding and observed what the net effect on poverty and economic growth would be in the sub-Saharan Africa region. It was found that worker remittances do not contribute significantly to the reduction of poverty. According to Fonchomnyo (2012:192), remittances to the sub-Saharan Africa in 2007 grew by $18.6 billion, which was approximately 3.7% of the GDP of sub-Saharan Africa. Figure 2.1 indicates the flow of remittances to Africa for the period 2001 to 2013.

FIGURE 2.1:   REMITTANCES TO AFRICA (BILLION, USD) FROM 2001 TO 2013

e: estimated   p: projected

Source: African Economic Outlook (2013)

Figure 2.1 illustrates an upward trend in remittances to Africa from 2001. However, from 2007 to 2012, total remittances to Africa as a percentage of GDP started to marginally decline. In Africa, remittances remain an important source of revenue to support consumption, education and health expenses (African Economic Outlook, 2013). The true reflection of remittances to Africa is expected to be larger than depicted in Figure 2.1, as data presented in Figure 2.1 does not include the informal flows into the African continent.

Another possible source of foreign exchange earnings is through the domestic investment climate. One of the key findings by Ndikumana and Verick (2008:713) is that the private sector is a driver of FDI. This means that African countries can gain by improving the investment climate. Therefore exporting by the private sector should also be investigated. Marcias and Massa (2010:366) agree with Ndikumana and Verick (2008) and furthermore examined the relationship between economic growth and four different types of private capital investment inflows from 1980 to 2008. The four flows are cross-border bank lending, FDI, bond flow, and portfolio equity flows. The sample consisted of 15 sub-Saharan Africa countries. The results showed that FDI and cross-border bank lending had a significant positive impact on economic growth. A 10% decrease in cross-border bank lending

translated into a 1.5% decrease in economic growth (Marcias & Massa, 2010:367). It is important to note that the cross-border lending of banks implies that the exchange of foreign currency only occurs once banks have vetted the country's investment climate and are convinced that the risks will be minimal. Figure 2.2 provides a summary of the cross-border lending by banks to sub-Saharan Africa from 2000 to 2007.

FIGURE 2.2:   CROSS-BORDER BANK LENDING TO SUB-SAHARAN AFRICA FROM 2000 TO 2007
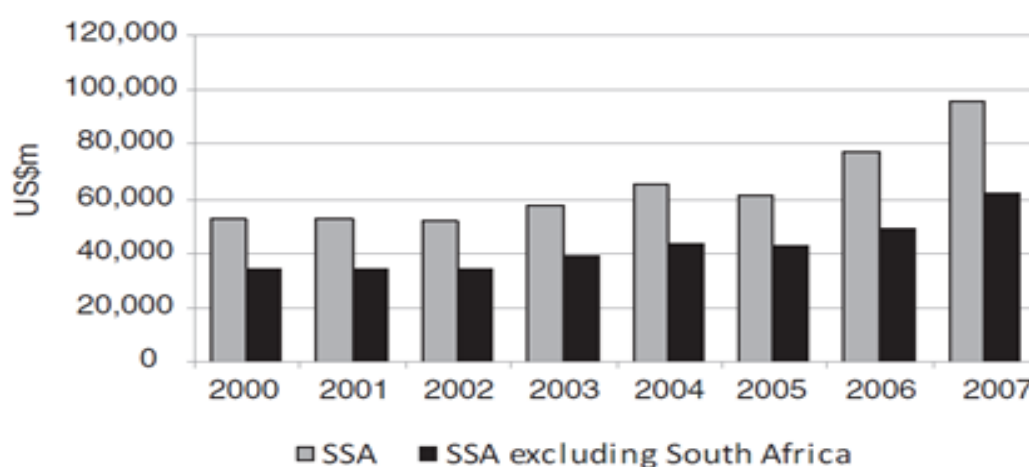
Source: Marcia and Massa (2010:367)

Figure 2.2 shows an upward trend in cross-border lending by countries in the sub-Saharan Africa from 2000 to 2007. This is evidence of increased trade between banks in the sub-Saharan Africa, facilitating economic growth in the sub-Saharan Africa region. Anyamele (2010:38) investigated the impact of FDI, exports and the educational attainment on sub-Saharan Africa economic growth. The results showed that FDI and exports have a significant impact on output growth in sub-Saharan Africa. This is consistent with the finding of the private sector being a driver of FDI as firms need to first be located in the host country before they can start exporting. Anyamele (2010:38) sampled 33 sub-Saharan Africa countries to present a methodology for calculating capital flight. Capital flight was calculated as the net effect/difference between inflows and outflows of foreign exchange recorded in the balance of payments. During the computations, corrections for the size of external borrowings, incorrect trade invoicing, and recorded remittances, were taken into account. In 2004 it was found that capital flight amounted to $443

billion in the 33 sub-Saharan Africa countries without interest, and with interest it amounted to $640 billion. These amounts exceeded the external debts of the countries, as in 2004 the collective debt of the countries amounted to $193 billion. The findings therefore showed that the sub-Saharan Africa region was a net creditor to the world (Ndikumana & Boyce, 2010:471).

It is also important to refer to the exporting environment in the context of manufacturing firms within the sub-Saharan Africa region. Manufacturing firms tend to play an important role in offsetting the balance of payments in the economy in which they operate.

Manufacturing firms in the sub-Saharan Africa region experienced poor export performance after trade liberalisation in the early nineties. This poor exporting performance occurred together with globilisation of markets and production. Some of the challenges that have been identified for the low exporting levels of manufacturing firms include a risky business environment, lack of technology capabilities, and lack of natural resources (Bewayo & Ekeledo, 2009:147-148). Verena (2011:26) conducted a study on manufacturing firms located in six sub-Saharan Africa regions which investigated the impact of exporting and the wage premium offered by foreign firms located in Africa. The overall finding was that manufacturing exporting foreign firms paid more to employees than domestic manufacturing firms. These results further confirm the poor exporting performance by domestic manufacturing firms in the sub-Saharan Africa region.

De Carvalho Chamon and Kremer (2006:400) explored the possibility of creating an economic development model for sub-Saharan Africa that duplicates the type of progress in generating foreign exchange earnings that was experienced by Asian countries. Initially, African countries would export cheap goods because this would position the sub-Saharan Africa countries as 'low wage-exporting countries' and later move on to sophisticated technology. Lezitizia and Gorgio (2011:75) explain that China and India followed the same model, and when their economies improved, the two countries were positioned as ideal manufacturers of cheap goods and services. Lezitizia and Gorgio (2011:75) further explain that because of this approach, China has influenced the intra-African market in different ways,

especially through natural resource trading. Table 2.3 outlines the leading imports from and exports to China that may have had an influence on the intra-African trade. Table 2.3 shows the major import-export patterns between China and Africa.

TABLE 2.3: IMPORT-EXPORT PATTERNS OF AFRICA AND CHINA

LEADING AFRICA IMPORTS FROM CHINA	LEADING AFRICA EXPORTS TO CHINA
Clothing textiles	Crude oil and natural gas
Machinery	Ores and metal and precious stones
Transportation equipment	Wood products
Base metal	Auto parts
Footwear	

Source: Adapted from Yazini (2009:469)

From Table 2.3 it is clear that the major imports to Africa are clothing textiles, machinery, transportation equipment, base metal, and footwear. The clothing textiles industry has been earmarked by the South African government as a strategic industry through the IPAP. The reason for this is the labour-intensive production methods used in the textile industry, thus providing employment in China and South Africa. Table 2.3 also supports Lezitizia and Gorgio's (2011) results by indicating that in 2009 crude oil and natural gases, metals, ores and precious stones were part of the leading exports to China from sub-Saharan Africa.

IDZs are important for the main reason of generating foreign exchange earnings for the host country, which then strengthens the domestic currency by creating a demand for the domestic currency in foreign countries.

The next subsection explores the importance of IDZs in attracting FDI, as well as the challenges experienced by sub-Saharan Africa regions in attracting FDI.

2.3.3 ATTRACTING FOREIGN DIRECT INVESTMENT

Jun-Kwon and Valentine (2005:6) gave the third main objective of IDZ as the attraction of FDI. There are two main types of FDI, namely fixed FDI and foreign

portfolio investment. The first type refers to the movement of real capital, such as manufacturing plants, production facilities, and equipment, and involves ownership and control. The second type of FDI is foreign portfolio investment which involves the movement of financial capital, such as bonds, equities and debentures (Appleyard *et al.,* 2008:227). The more fixed FDI a country can obtain, the greater the probability of economic growth. Ndinkumana and Verick (2008:715) stated in 2008 that the sub-Saharan Africa had been receiving an increased share in global inflows from 1988 to 2008. Dyakov (2009:63), however, stated that not all countries in the sub-Saharan Africa region were successful in attracting FDI during that time. Though these countries are large in terms of labour force and territory, and abundant in natural resources, they have not performed optimally in attracting FDI, and there is still room for improvement.

Another area where improvement is needed is fiscal incentives by African countries. Emmanuel (2008:137) analysed the influence of fiscal incentives on FDI in the sub-Saharan Africa, the sample consisting of 16 sub-Saharan Africa countries. The overall finding was that traditional fiscal instruments and policies by governments were important in attracting FDI in the sub-Saharan Africa. The study found that tax holidays were the most important of all the traditional fiscal incentives. Tax holidays were perceived to be the most practical by sub-Saharan Africa, and the most understood by foreign investors. Table 2.4 elaborates on the traditional incentives used by different countries to attract FDI.

TABLE 2.4:   TYPES OF INCENTIVES USED BY COUNTRIES TO ATTRACT FDI

Incentives	Africa (23)	Asia (17)	Latin America & Caribbean (12)	Eastern Europe (25)	West Europe (20)	Others (6)	Total (103)
Tax Holidays	16	13	8	19	7	4	67
Accelerated Depreciation	6	8	6	12	10	5	47
Investment Allowances	4	5	9	3	5	-	26
Import duty Exemption	15	13	11	13	7	4	63
Duty Drawback	10	8	10	12	6	3	49

Source: Adapted from Emmanuel (2008:137)

Table 2.4 clearly indicates that in 2005, tax holidays (67) were the most popular type of incentive used by governments to attract FDI, followed by import duty exemption (63) and duty drawback (49). Eastern Europe and Africa also considered tax holidays to be the most important, followed by import duty exemption.

In contrast to the study by Emmanuel (2008), Van Parys and James (2013:400) conducted a similar study in the French-speaking sub-Saharan Africa regions concerning tax incentives. The study investigated the extent to which tax incentives attracted FDI in sub-Saharan Africa, whilst testing the neo-classical theory which predicts that investment increases when lowering the cost of capital. In the study the major component of the cost of capital was tax incentives. It was found that there was no strong positive relationship between tax incentives and investment in the French-speaking sub-Saharan Africa region. The study suggested that an increase in the number of legal guarantees for investors and a simple tax system could be used to attract FDI (Van Parys & James, 2013:400).

Privatisation of state owned entities in the hope of attracting FDI, is another method the sub-Saharan Africa region has pursued. Between 1991 and 2001, Zambia sold most of its state owned entities to foreign investors, and this resulted in a large amount of direct investment in the country. Despite the increase in FDI during the 1990s, the economy of Zambia deteriorated. The only real benefit of the

sale was that the foreign owners were more export-orientated than the domestic investors. This forced Zambia to explore new avenues of attracting investment (Rolfe & Woodward, 2004:5). According to Emmanuel (2012:469), institutional entities also play an important role in attracting FDI to the sub-Saharan Africa region. African countries often incorrectly perceive political stability and economic environmental factors as the only factors that attract FDI.

The traditional definition of fixed FDI extends only to 'foreign direct investment' which is in fact different from 'foreign portfolio investment' (Appleyard *et al.,* 2008:227). The establishment of a successful stock market in a developing country can be a major source of development finance. The stock market can channel both domestic savings and FDI. In the case of Mozambique and Swaziland, the operational aspects of the stock market were seen as being inadequate for attracting international investment (Bruce & Jennifer 2010:205). The reason for this was the size of the actual stock markets and non-operational financial institutions, which offered international investors a limited opportunity to diversify for risk. In contrast, South Africa has a much more developed and matured stock market which allows international investors the adequate diversification needed for their portfolios. Dippenaar (2009:199) supports this by pointing out that FDI flowing into South Africa is very diverse in terms of origin, size of firms, and sector activity.

One of the fundamental problems of attracting FDI to South Africa is the issue of governance. This has also negatively influenced economic growth and political stability. The problem of governance in South Africa and the sub-Saharan Africa at large manifests through corruption, unconstitutional behaviour, inefficiency, waste, and unnecessary bureaucracy (Yazini, 2009:461). Even so, some countries such as China and India have had economic and trade relations with South Africa for many years. Over time these interactions have increased, and consequently a number of Chinese firms and entrepreneurs continue to look for strategic partnerships with African companies with the aim of establishing collaborations and joint ventures (Ephraim & Philemon, 2011:734). Table 2.5 provides a summary of the type of ownership and business activities of Chinese entrepreneurs in South Africa.

TABLE 2.5:   EXAMPLES OF TYPES AND SCOPE OF CHINESE FIRMS AND ENTREPRENEURS IN SOUTH AFRICA

EXAMPLE	LEVEL	OWNERSHIP	BUSINESS SECTOR / TYPE	Capital Range	NUMBER OF WORKERS	TIME FRAME	STRATEGY
LARGE							
Sinohydo	Large	Formal	Energy	$ 1m – 5bn	1-500 Chinese	Long	State-support
Huwai Tech.	Large	Private	Telecommunication	$ 1 – 200m	100 – 500 Chinese	Long	Global
MEDIUM							
Zhogken Farm	Medium	Formal	Agriculture	$ 1 – 50 K	50 - 200 Chinese/African	Long	Global
Wholesale in Johannesburg	Medium	Private/Informal	Wholesale	$ 5 – 10 K	Self-employed	Long	Local community
Trade Co. in Nigeria	Medium	Private/Formal	International trade	$ 1 – 50 K	5 - 25 Chin/African.	Long	Enterprise association
SMALL							
Baiho shops in CapeVerde	Small	Private/Formal	Fixed location retail	$ 5 – 10 K	1 - 25 Chinese family	Medium	Local community
Hawkers/retail	Small	Private/Informal	Retail	More than $5 K	Self-employed	Long	Family Network
Vendors/retail	Small	Private/Informal	Retail	More than $5 K	Self-employed	Long	Family Network

Source: Adapted from Ephraim and Philemon (2011:738)

Table 2.5 provides a summary of the overall Chinese FDI in South Africa. The FDI is described in terms of the size, sector, number of Chinese workers and the type of business strategy that is supported. The energy industry managed to attract a large amount of Chinese FDI in 2008, with investment values ranging from $1m – $5bn. This investment emanated from a collaboration between the South African government and a Chinese company named Sinohydo.

FDI is very important for any country, as it also diversifies the country's economy, and to some extent leads to innovation.

The following section explores the transfer of technology by FDI as an objective of IDZs.

2.3.4   TECHNOLOGY TRANSFER

Markert (1993:231) defines technology transfer as the development of technology in one setting which is then transferred for use in another setting. In the host and receipt country context, technology transfer is described as the new technology from the originator (developed country) to a secondary user (less developed country) in an attempt to boost their economies (Oxford Dictionaries, 2013).

Many governments regard the attraction of FDI as a priority, as they expect FDI inflow to bring new technologies and expertise to the economy. This new technology will then increase productivity and competitiveness in their domestic industries. Policy makers thus view FDI as having positive after effects for their economies through productivity spillovers (Bloomstrom, Graham & Moran, 2005:45). Bardy, Drew and Kennedy (2012:267) emphasise that spillover effects by FDI of knowledge and technology sharing may be limited and hard to measure. Kleynhans and Zwedala (2012:348) confirm this by explaining that a direct measure for spillovers is difficult to find. According to Managi and Bwalya (2010:605), FDI is an excellent medium for domestic firms to benefit from technology transfer. This sort of benefit is realised by technology spillovers between inter-industries, namely technology spillovers from foreign firms to domestic firms. Intra-industry spillovers are in the form of productivity methods. Kwaku Kyem (2012:231) points out that benefits of deploying ICT are not being

realised in the sub-Saharan Africa. ICT has the potential to threaten development of sub-Saharan Africa because of automation. Many of the sub-Saharan Africa countries have relatively high unemployment rates and prefer labour-intensive methods of production. Figure 2.3 illustrates the technology and knowledge linkage between the investment objective and host country stakeholders and the influence of FDI in developing countries.

FIGURE 2.3: TECHNOLOGY AND KNOWLEDGE TRANSFER INITIATED BY FDI IN HOST COUNTRIES
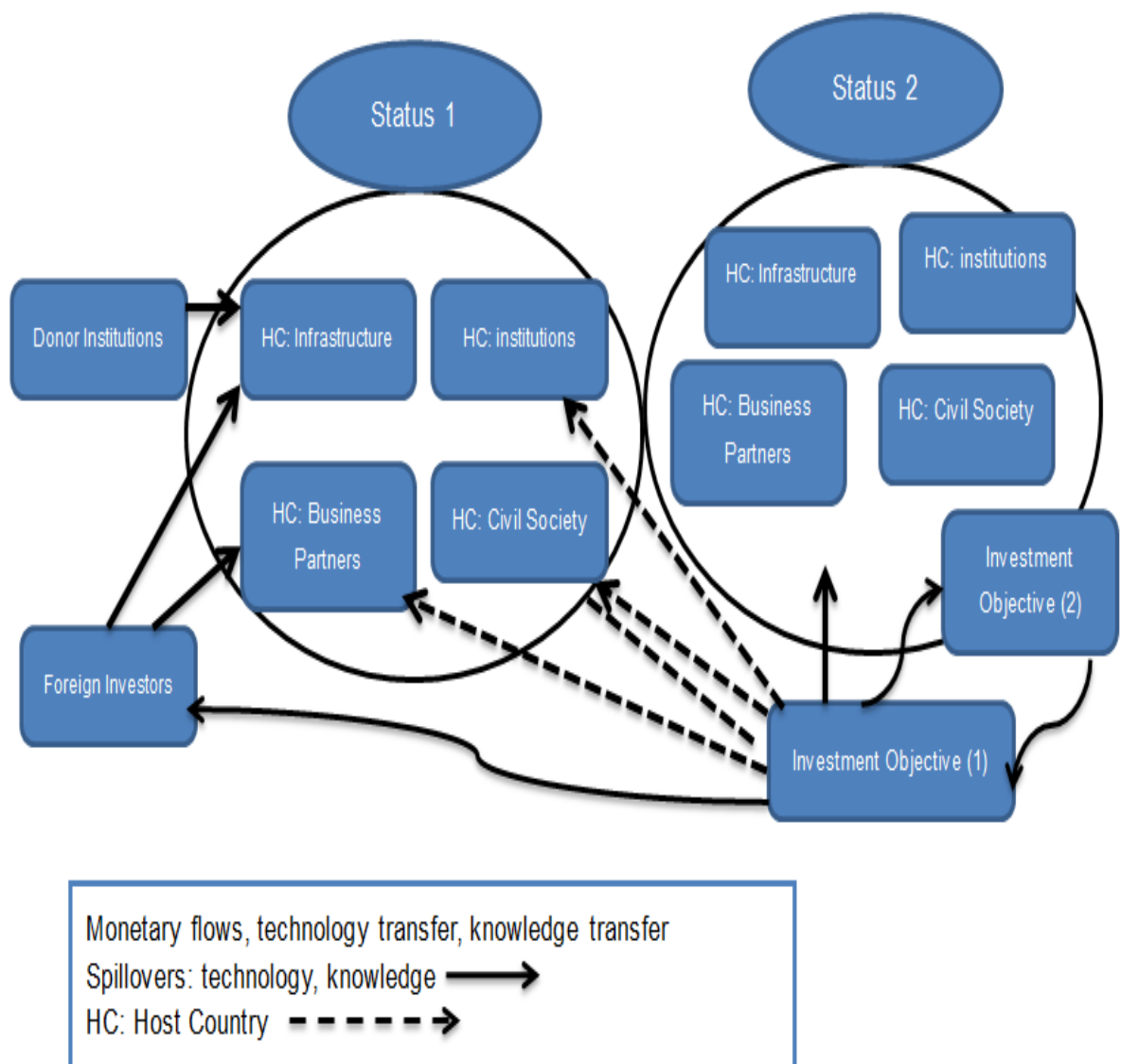
Source: Bardy *et al.* (2012:273)

Figure 2.3 illustrates two statuses of technology and knowledge transfer initiated by FDI in host countries. The first status highlights the role of foreign investors to

the host country in terms of infrastructure and business partners as well as the monetary, technology and knowledge transfer. The second status shows the role of the investment objective to facilitate the various technology and knowledge spillovers to the host country. From Figure 2.3 it is clear that the technology spillovers occur once the parties are agreeing on the overall investment objective, which is on a corporate social responsibility front.

Tseng (2009:50) states that knowledge spillovers can improve technology innovation in the receipt country. The main reason for this is that the receipt country is not limited to FDI, but can also take advantage of both intra-national and international knowledge to strengthen its technological capability. Pouris and Pouris (2011:24) explored some of the property rights systems used by the South African government as a policy tool to attract FDI. These property rights systems have the potential of either favourable or adverse consequences for the national system of innovation, technology transfer, research and development (R&D) as well as economic growth. The main finding was that the current intellectual property rights regime not only fails to support the objectives of the national innovation system, but also that it facilitates exploitation by foreign interests and creates substantial social costs (Pourris & Pourris, 2011:25).

In the South African context, Kleynhans and Zwedala (2012:341) investigated the contribution of technological and knowledge spillovers to the competitiveness of South African manufacturing firms. The study assumed that spillovers were dependent on FDI, technology and R&D. The hypothesised equation was as follows (Kleynhans & Zwedala, 2012:342):

Spillovers = FDI + Technology + R&D   [Equation 3]
Where
FDI is fixed foreign direct investment
Technology is production method
R&D is research and development

Equation 3 implied that the more a firm invested in technology and R&D and/or received FDI, the more it will contribute to spillovers in the industry. This resulted in

improved production methods from other firms in that particular industry. Another important spillover will be that of human capital; as the firm continuously invests in R&D, its workers will become better educated and will improve production processes.

Investment in R&D also has a negative effect on industry spillovers. As workers become more educated, they tend to be cautious of the kind of information that will be shared with other firms in the industry (Sonny & Khaled, 2012:945). Koo (2007:995) provides clarity on the types of industry that the government should be spending on, and evidence indicates that agglomeration, industry structure, small establishment, and local competition, play important roles in the localisation of technology spillovers. Policy makers must take these factors into consideration when allocating resources for R&D to particular industries in the receipt country. In the case of human capital implications of R&D, Koo (2007:996) states that diversity and specialisation in industries are important. However, the magnitude of their importance decreases as the knowledge intensity of the industry increases. The best scenario for technology spillovers is when industries with low knowledge intensity share similar knowledge. This is demonstrated by the United States data in Table 2.6 in terms of industries and the attributes used in relation to knowledge, labour and material intensity.

TABLE 2.6: US INDUSTRIES AND THE ATTRIBUTES USED IN RELATION TO KNOWLEDGE, LABOUR AND MATERIAL INTENSITY

STANDARD INDUSTRIAL CLASSIFICATION (SIC)	INDUSTRY	US EMPLOYMENT, 1997	KNOWLEDGE INTENSITY RATE	LABOUR INTENSITY RATE	MATERIAL INTENSITY RATE
281 – 282, 286	Industrial chemicals	323 017	6.53	2.85	0.67
283	Drugs and medicine	212 610	18.01	3.91	0.42
30	Rubber products	1 015 177	1.26	7.17	0.57
32	Stone, clay and glass products	500 828	0.71	7.09	0.53
33,3462,3463	Primary metals	686 161	0.85	4.79	0.65
34 (except 3462,3463,348)	Fabricated metal products	1 537 591	0.81	7.34	0.59
357	Office, computing, and accounting machines	253 070	12	4.48	0.61
365	Radio and television receiving equipment	50 070	1.86	7.88	0.77
366, 367	Electronic component and communication equipment	844 050	15.42	5.38	0.43
371	Motor vehicles and motor vehicles equipment	815 513	6.3	3.81	0.72
372, 376	Aircrafts and missiles	494 913	10.74	7.39	0.48
38 (3825)	Professional and scientific equipment	813 612	6.72	6.08	0.45

Source: Adapted from Koo (2007:1004)

Table 2.6 indicates that the range of knowledge intensity is lowest in the stone, clay and glass products industry (0.71) and highest in the drugs and medicine industry (18.01). Therefore the US government should consider allocating resources to the stone and clay industry and similar industries to optimally benefit from spillovers. The stone and clay industry has the lowest knowledge intensity, which proves best to facilitate spillovers.

The previous section has outlined the four main objectives of IDZs as highlighted by Jun-Kwon and Valentine (2005:6). Most importantly, the section has defined the objectives of IDZs and elaborated on the contribution in the designated area and to any economy. Examples from various countries were provided about how these objectives remain relevant, and the efforts by governments to achieve them.

Since IDZs are defined by the South African Revenue Service (2010) as "industrial estates", IDZs usually consist of a number of zones designated for different industries within the IDZ. Naturally there could be a number of labour, knowledge and material intensities within the IDZ, as indicated by Koo (2007:1004). One such an IDZ where a number of diverse industries are present is the Coega IDZ in the Eastern Cape.

2.4   OVERVIEW OF THE COEGA IDZ

The Coega IDZ is situated 20 kilometres from the Port Elizabeth city centre, and is the largest IDZ in South Africa. The IDZ is 11 000 hectares in size. The multibillion-rand industrial park is adjacent to Ngqura, the new dedicated deep-water port with purpose-built container, bulk and break-bulk terminals. Coega is part of the Nelson Mandela Metro, which has a strong and diverse automotive cluster that includes original equipment manufacturers such as General Motors and Volkswagen. Suppliers to the two automotive giants include Goodyear, Bridgestone, Corning, Visteon, Hella, Faurecia, LUK and Johnson Controls. The original equipment manufacturers and most of the suppliers serve both the local and export markets (Eastern Cape Development Corporation, 2012).

The Coega IDZ has purpose-designed zones which cater for all levels of manufacturing, ranging from assembly to logistics. It is supported by a business

process outsourcing park, customs secure areas, and shared facilities which help manage and contain operators' costs (Department of Economic Development, Environment Affairs and Tourism, 2010). The Coega IDZ IPS primarily focuses on the following sectors for attracting FDI:

- metals/metallurgical: ferro chrome, stainless steel, iron and steel slabs;
- textiles: flax, wool and mohair, agro-processing;
- automotive: automotive components, original equipment manufacturers;
- services: business process outsourcing, call centres;
- chemicals: organic (petrochemicals), inorganic (chlorine); and
- energy: alternative energy sources.

According to the Nelson Mandela Bay Council (2013:1), the Coega IDZ sells prime industrial space in Africa. Its strategic linkage with the Port of Ngqura enables efficient export of manufacturing value-added products directly from the production facilities. The development of the first five zones in the IDZ is geared towards the light electronics and commercials, automotives, textiles, agro-processing, academic and training, services, and heavy to medium manufacturing (Eastern Cape Development Corporation, 2012).

In 2012 the Coega IDZ attracted investments worth R4.1 billion. During the 2012/13 financial year, the IDZ secured a total of seven investments, namely, GDF Suez (R2.7-billion in the energy sector), EAB (R270-million in the renewable energy sector), FAW (R600 million in the automotive sector), DCD Dorbyl (R110 million in the energy sector as a component manufacturer), Tyre Energy Extraction (R30 million in the automotive sector), OSHO Cement (R380 million in the construction sector) and the Newco cheese factory (R30 million in the agro-processing sector) (Engineering News, 2012).

Apart from the investment promotion activities, the Coega IDZ has also embarked on implementing construction and refurbishment programmes on behalf of national departments, namely the Department of Health, the Department of Education and the Department of Sports, Recreation, Arts and Culture. According to the Mehlwana (2013:15) one of the CDC initiatives to fight poverty and create jobs

across NMB is through the Small Medium Micro Enterprises (SMME) construction programme. The programme seeks to benefit SMMEs by allocating 35% of the construction value to SMMEs to foster growth. In addition, implementing construction projects on behalf of National Departments, the Coega IDZ has been implementing a driver training programme. The driver training programme is aimed at unemployed graduates, with the aim of increasing the probability of finding employment. The programme assisted 1 453 unemployed graduates in the 2012/13 financial year, and 2 349 unemployed graduates in April 2013. There is no cost to the graduates, and the programme includes the following geographical regions: Buffalo City College in East London, Lovedale FET College in King Williams Town, Eastcape Midlands College in Uitenhage and Grahamstown, Ikhala College in Queenstown, Nkantolo Community Centre, Walter Sisulu University in Mthatha, and Amajingqi Traditional Council in Willowvale (Straton, 2013).

In November 2013, the Coega IDZ was nominated for the National Business Awards and awarded, 'Top Performing Agency in 2013' in the category of Parastatal/Agency of the year. The award recognised state owned entities that demonstrated a high level of efficiency and effectiveness by working within allocated budgets, ensuring environmental and sustainable development, contribution to the economy, innovation and excellence in fulfilling their service delivery mandate, and generally making the greatest impact through their key performance indicators (Vilakazi, 2013:1).

The previous section has discussed the establishment of the Coega IDZ, the different zones in the Coega IDZ, and their designated industries. The various social upliftment programmes with regard to unemployed graduates and SMMEs were also referred to. The section has also highlighted the critical contribution of the Coega IDZ to NMB and surrounding Eastern Cape areas.

2.5   SUMMARY

Chapter 2 has reviewed the general literature explaining the importance and existence of IDZs, which is in line with the first secondary objective of the study. The importance of IDZs can be summarised as the facilitation of socio-economic welfare and economic growth. The chapter elaborated on the role of IDZs through

the four main objectives of IDZs and their contribution to the Coega IDZ. The four main objectives were described as job creation, foreign exchange earnings, FDI attraction, and technology transfer.

The increasing unemployment rate in South Africa which is central to the government's efforts for the eradication of poverty was addressed. The current unemployment rate in South Africa is 36.1% as per the broad definition.

The extent to which sub-Saharan Africa has managed to attract FDI over the years was also outlined, and the difficulty of measuring skills transfer in host countries was referred to. An overview of the Coega IDZ and its recognised socio-economic efforts in the Eastern Cape region was also provided. The main zones in the Coega IDZ were given as metals, textiles, automotive, services, chemicals, and energy.

The following chapter will discuss the types of FDI, SEZs, the IPS and various international promotion strategies. The independent variables that influence the IPS and how these variables influence FDI will also be discussed.

CHAPTER 3

FOREIGN DIRECT INVESTMENT AND INVESTMENT PROMOTION

3.1   INTRODUCTION

Chapter 2 discussed the general literature pertaining to the history of free trade zones and the existence and importance of IDZs. The role of IDZs with the four main objectives of IDZs and their contribution to the South African economy, were discussed. Job creation was highlighted as the primary objective of the South African government which is central to eradicating poverty. The chapter also outlined the extent to which sub-Saharan Africa countries have managed to attract FDI over the years.

Chapter 3 addresses the secondary objective of the study, which is investigating the determinants of FDI that will influence the number of signed investors. Chapter 3 explores the four main types of international FDI and how investment promotion attempts to attract FDI to the host country. The chapter commences with an overview of FDI and the different types of international FDI. This discussion is followed by the investment promotion policies, including the investment promotion drivers and investment promotion process. Reference is also made to the transition of IDZs to SEZs by the South African government and the reasons for doing so. The chapter continues with a summary of all the important determinants of FDI from Chapters 2 and 3, as indicated by the general literature overview.

3.2   OVERVIEW OF FOREIGN DIRECT INVESTMENT

There are three main types of FDI in existence in the world (The three types of FDI explained, 2007:34). These types are as follows:

- horizontal or market-seeking FDI which involves a firm duplicating production facilities in the host country for supplying regional markets;
- vertical or asset-seeking FDI which is export-orientated and involves relocating parts of the value chain to low-cost locations; and
- efficiency-seeking FDI which is described as investors having to benefit because of the common governance of geographically dispersed activities in the presence of economies of scale and scope.

Franco *et al*. (2010:42) emphasise the importance of knowing the underlying motivators of FDI that are present in a particular economy because they see motives being at the core of these different types of FDI. Franco *et al.* (2010:43) are of the opinion that these underlying motives do not originate from when the FDI has chosen that particular location but rather are internalised determinants which include, for example, the firm's growth strategy, competitive advantage, or resources. This is consistent with Dunning's Eclectic paradigm (Dunning, 1977:48) since a firm's distinctive competencies fall under internalisation, which is vital for FDI attraction. Table 3.1 provides a descriptive summary of the three motive-based types of FDI as summarised by Franco *et al.* (2010:47) which excludes efficiency-seeking FDI because it falls under the market-seeking type of FDI.

TABLE 3.1:   A MOTIVE-BASED CLASSIFICATION OF FDI

	OBJECTIVE	RELEVANT ALTERNATIVES	INTERNALISATION DETERMINANTS	LOCALISATION DETERMINANTS
Resource-seeking	• To acquire particular resources present in foreign market/location	• International outsource • International Trade in intermediates	• Asset specificity • Uncertainty • Asset intangibility • Asset complementarity	• Real cost of the resource • Absolute scarcity of the resource • Relative productivity of the resource
Market-seeking	• To exploit a foreign market – by supplying either the market of the host country (host-market FDI) or that of adjacent ones (export-platform FDI)	• Exports • Licences	• Policy barriers • Transportation/communication costs • Easiness of imitation • Degree of patentability mixed	• Host-market FDI: Absolute market size • Market growth rate Absolute advantage • Comparative advantage • Export-platform FDI • Differences regulations • Labour cost differentials
Asset- seeking	• To acquire assets not directly transferable via market transactions	• Joint Venture • Acquisition of core personnel	• Degree of market competition • Degree of knowledge transferability through direct contact • Extent of organizational capabilities	• Basic and advance infrastructure • Technological distance between home and host country

Source: Adapted from Franco *et al.* (2010:47)

The three types of FDI summarised in Table 3.1 are resource-seeking, market-seeking and asset-seeking FDI. Each type of FDI has a unique objective, which ranges from acquiring resources in a foreign market to exploiting a foreign market to establish an export platform. The summary also shows some of the internalisation aspects which pertain to a specific type of FDI. These include policy barriers, easiness of imitation of products or service, transportation or communication costs, degree of market competition, and uncertainty. The table also highlights some locational (external) determinants that are important for these types of FDI, such as basic infrastructure, distance between home and host country, regulations, and market growth.

These three types of FDI are present when a firm invests in one economy, and is involved in long-term relationship building with that country, full- or part-time management of real assets (production facilities) is taking place, and real estate or an equity investment exceeding 10% of market capitalisation of the firm is present (The three types of FDI explained, 2007:34).

The following section discusses a market-seeking type of FDI which focuses on the market growth and substantial target market prospects. This is important because some foreign firms have maximisation of sales amongst other objectives as their primary business objective, and would not locate to the host country if this objective is not to be achieved in the short or medium term.

3.3   MARKET-SEEKING FOREIGN DIRECT INVESTMENT

Amadasun and Ojeifo (2011:135) define market-seeking investments as investments which aim to access new markets that are attractive as a result of size and/or growth. According to Brouthers, Gao and McNicol (2008:678), in any country, FDI levels are a trade-off between market attractiveness and corruption. Market-seeking FDI will mitigate the negative influence of corruption in any country. Market-seeking factors of FDI such as market size, market growth, and structure of domestic markets, aim at penetrating local markets of host countries (Wadhaw & Reddy, 2011:219). In the case of Nigeria, Yuari (2011:51) investigated whether the overall FDI in Nigeria was market-seeking or export-seeking. The investigation was important because the impact of FDI in Nigeria and whether FDI

was contributing to the overall capacity of developing economies to export, was a concern for policy makers. The study investigated the contribution of FDI to manufacturing exports in Nigeria. A total of 232 manufacturing firms were sampled, and the results revealed that FDI does not significantly contribute to manufacturing exports in Nigeria. This then supported the conclusion that FDI in Nigeria was traditionally attracted by fundamental economic factors like market size and the availability of resources (Yuari, 2011:55).

Pereira and Calegario (2013:73) investigated whether FDI growth improved Brazil's trade balance, that is, if there was a relationship between FDI strategies and the trade balance. Dornbusch *et al.* (2004:590) defined the trade balance as the net flow of money into a country from sales of goods abroad. The results of the study revealed that FDI facilitates an increase in exports and imports mainly for market-seeking FDI, which is foreign firms pursuing market-seeking strategies. The results further revealed that Brazil's FDI strategies led to exports in the short and long term, and would result in imports in the short term, but not in the long term (Pereira & Calegario, 2013:81). These results are consistent with those of Lin, Chen and Rau (2010:466) when they investigated the impact of exchange rate uncertainty on the timing of FDI with diverse investing motives in China. The results revealed that an increase in exchange rate volatility delayed FDI of a market-seeking firm, and accelerated FDI of an export-substituting firm. The overall conclusion was that market-seeking FDI might increase the exposure of the firm's profits to exchange rate risk, while an export-substituting FDI might reduce it (Lin *et al.,* 2010:481).

The previous section explored the different characteristics of a market-seeking type of FDI, particularly how the type of FDI can mitigate negative perceptions of corruption in a host country. Market-seeking FDI was also seen to have an impact on the host country's imports and exports, thus influencing the country's balance of payments.

The following section explores the different modes of multinationals entering receipt countries of FDI, should the business objective not focus on market growth but rather entry in the receipt country for a specific scarce resource.

3.4   RESOURCE-SEEKING FOREIGN DIRECT INVESTMENT

Amadasun and Ojeifo (2011:135) define resource-seeking investments as investments which aim to exploit the natural resources endowment of a particular continent.

Resource-seeking FDI pursues many entry modes into a host country; some modes include underdeveloped countries, acquisitions, and joint ventures. These entry mode strategies allow the resource-seeking firms to overcome different kinds of market inefficiencies that have an influence on the characteristics of the resources. Joint ventures in a host country that has a weak regulatory institutional framework can result in the firm having access to many resources. In receipt countries where the regulatory institutional framework is stronger, joint ventures become less important. Acquisitions, however, play a much more important role in acquiring resources in the host country which are intangible and organisationally embedded (Meyer, Estrin, Bhaurik & Peng, 2009:61). Oyeranti *et al.* (2011:183) analysed the economic relationship between Nigeria and China. The findings revealed that the Chinese investment was focused or concentrated in a few sectors in Nigeria. The major sectors where there was a large volume of investment were the extractive industries, in which the common entry mode for the resource-seeking FDI was state owned entities and joint ventures. In contrast, Cheung and Qian (2009:312) investigated the determinants of China's Outward Direct Investment (ODI) and the results revealed the following:

▪   both market-seeking and resource-seeking motives drive China's ODI;

▪   Chinese exports to developing countries induce China's ODI;

▪   China's international reserves promote its ODI; and

▪   Chinese capital tends to agglomerate among developed economies but diversifies among developing economies.

Cheng and Qian (2009:330) did not find any substantial evidence that China invests in Africa and oil-producing countries mainly for natural resources. Park (2003:1739) found overwhelming evidence of a resource-seeking type of FDI from Japanese manufacturing firms in host countries. The results of the study revealed that the Japanese FDI strategy had passed through three different phases,

namely:

- a natural-resource seeking FDI strategy phase from 1950 to 1970;
- a market-seeking FDI strategy phase from 1970 to 1980; and
- a combination of cost-reducing and labour-cost-reducing FDI strategy (efficiency-seeking FDI) phase from 1990 to 2000 (Park, 2003:1745).

The previous section explored the different characteristics of a resource-seeking FDI. This type of FDI was viewed as being opportunistic if the host country had a weak regulatory institutional framework. It was discussed how Asian countries seem to display this type of FDI, and investments were concentrated on mainly African extractive industries.

The following section explores the efficiency-seeking type of FDI, and some of the flexible production methods adopted by Asian manufacturing firms located in Africa and abroad.

3.5   EFFICIENCY-SEEKING FOREIGN DIRECT INVESTMENT

Amadasun and Ojeifo (2011:135) define efficiency-seeking FDI as investments that aim to take advantage of the special features in certain areas, such as the cost of labour, skills of the labour force, quality and efficiency of infrastructure. Chrysostome and Lupton (2011:54) investigated the characteristics and performance of Japanese FDI in Africa. A sample of 1 062 Japanese subsidiaries in Africa was used to conduct the study. The results revealed that efficiency and market-seeking FDI was common in Japanese firms located in Africa. These results are consistent with those of Park (2003:1743) that Japan after the 1990's pursued an efficiency-seeking FDI strategy. Harri (2012:273) estimated the United States outward FDI within the framework of economies of scale which hypothesised efficiency-seeking as the main goal for multinationals. The study used data from 1982 to 2007 from non-homogeneous production, and the overall result supported the hypothesis. The hypothesis was supported by the following:

- estimates of efficiency, indicating an improvement in efficiency from decreasing to increasing returns to scale; and

- increasing productivity of both capital and labour being acknowledged as a contributing factor.

In addition it was found that this increasing elasticity of factor substitution (capital and labour) was attributed to management utilisation of flexible production technology, which enabled a more efficient allocation of resources (Harri, 2012:279).

Tahir and Larimo (2004:102) investigated Finnish manufacturing firms' location-specific variables and strategic motives, and how these have influenced location strategies in Asian countries. The research results indicated that the market size, and low wage rates in the host country, increased the likelihood of Finnish market-seeking and efficiency-seeking FDI in Asian countries. These results are consistent with the Cobb-Douglas Production Function, which describes the relationship of the type of investment and national output. The Cobb-Douglas Production Function equation is given in Equation 4; it is possible that the type of investment described in the production function is efficiency-seeking (Dornbusch *et al.,* 2004:54).

$$Y = AF (K, N) \qquad\qquad \text{[Equation 4]}$$
Where
Y is national output
AF is a factor relating to total productivity
K is capital (new and expansion investment)
N is labour

The preceding section explored the different characteristics of an efficiency-seeking type of FDI. It was seen that the type of FDI focused on the efficiency of infrastructure and on general economical inputs of factors of production. It was also noted that efficiency-seeking FDI was most suited to environments where there were flexible production methods which allowed a more efficient allocation of resources.

The following section discusses the methods through which foreign multinational

firms enter receipt countries of FDI.

3.6 ASSET-SEEKING FOREIGN DIRECT INVESTMENT

Strategic or asset-seeking FDI is defined as an investment which seeks to acquire local companies and market knowledge (Amadasun & Ojeifo, 2011:135). Asset-seeking FDIs can be explained as being export-orientated, the main drivers being the availability of cheap labour and raw materials not present in the home country (The three types of FDI explained, 2007:34). Barclay (2000:203) investigated the motivations, locational choices and market entry mode selections of MNE when investing in three Caribbean countries. In the study all three types of FDI were examined, namely market-seeking, resource-seeking and export-seeking. The research results revealed that all three Caribbean countries had areas for export-orientated activity. Jamaica was the only country that called it an EPZ. The results also revealed that location was important to foreign firms' initial investment decision. The predominant motivator of FDI was cost. Reliability and quality of the general infrastructure services, utilities (water and electricity), airline service, and public transport, all contributed to the decision for located FDI to continue operations in Jamaica and Trinidad (Barclay, 2000:207-213). According to the Mexico Business Forecast Report (2006:19), Mexico is among the top emerging market performers in terms of attracting FDI. The membership of the North American Free Trade Agreement has made the country a prime target for foreign investors, especially those seeking a low-cost manufacturing base for exports into the US market. Since 1999 the country has been experiencing a decline in FDI attraction. The report points to a number of possible reasons, namely:

- strict labour force regulation policies;
- low levels of schooling resulting in skills shortages;
- competition from China and India;
- lack of updating labour and fiscal laws;
- increasing crime statistics; and
- lack of transformation of the energy sector (Mexico Business Forecast Report, 2006:21).

Table 3.2 illustrates the decline of export-seeking FDI inflows in Mexico from 1999 to 2003.

TABLE 3.2:   ANNUAL MEXICO FDI INFLOWS

	1999	2000	2001	2002	2003
Inward FDI, US $ million	13 206.0	16 586.0	26 776.0	14 745.0	10 783.0
% change year on year	70.8	25.6	61.4	-44.9	-26.9
FDI as % of GDP	2.7	2.8	4.3	2.3	1.8
FDI per capita (US$)	134.6	166.6	265.1	144.0	104.0

Source: Adapted from Mexico Business Forecast Report (2006:21)

From Table 3.2 it can be seen that from 2001 to 2003 the country experienced an overall year-on-year FDI decline of -10.4% of inward FDI. The decline can mostly be explained by the over-regulation of factor costs of labour. Cheap labour was identified as an enabler of export-seeking FDI. Mexico was earlier identified as a prime target for foreign investors, especially those seeking a cheap manufacturing base for exports (The three types of FDI explained, 2007:34). Even though the data may be outdated, it does to a large extent explain what deters the asset-seeking type of FDI in sub-Saharan African countries.

Regardless of the type of FDI, the host country desires to attract resource-seeking, efficiency-seeking, market-seeking or asset-seeking FDI, the end result of any receipt country is crafting a comprehensive investment promotion policy and thereafter a feasible investment promotion plan. The investment promotion plan must seek to minimise promotion costs and maximise investment value through a sound IPS.

The previous section discussed the nature of the strategic or asset-seeking type of FDI. The section highlighted a number of factors that deter this type of investment and gave an example of Mexico experiencing less FDI year-on-year, which was contrary to the country's IPS.

The following section introduces an investment promotion framework for analysing investment promotion strategies for efficiency and effectiveness by evaluating the costs and benefits at a strategic, tactical and operational level.

3.7   INVESTMENT PROMOTION POLICIES

According to Wells and Winnt (2000:2), a portfolio through which governments aim to attract FDI inflows can be constituted as investment promotion. These portfolio activities include advertising, investment seminars and missions, participation in trade shows and exhibitions, distribution of literature, one-to-one direct marketing efforts, facilitating prospective investor visits, matching prospective investors with local partners, assistance in obtaining permits and approvals, preparing project proposals, conducting feasibility studies, and servicing investors whose projects have become operational. Djokoto (2012:47) identifies two broad investment promotion strategies or policies, namely, targeting and the mass approach. Targeting requires participation in affairs specific to each industry. The mass approach requires IPA staff to be involved in all types of affairs, and promotes a country as a good place to do business.

Ginevicius and Simelyte (2011:225) describe two main theoretical approaches to the promotion of FDI, namely the liberal and the regulatory approaches. According to Moravcsik (2010:1), the liberal approach considers socially determined preferences for the receipt country such as social pressures from organised groups. In contrast, the regulatory approach is derived from industrialisation policies, nationalism and welfare provision. The trend in the past decade, however, has been a shift from the regulatory to the liberal approach in LDC (Ginevicius & Simelyte, 2011:255). DG Enterprise & Industry (2013:4) provides a framework for determining the effectiveness of investment promotion policies derived from the two liberal and regulatory approaches, which could be implemented using either the mass or targeting methodology. This framework for analysing investment promotion policies is outlined in Figure 3.1.

FIGURE 3.1:   A FRAMEWORK FOR ANALYSING INVESTMENT PROMOTION POLICIES
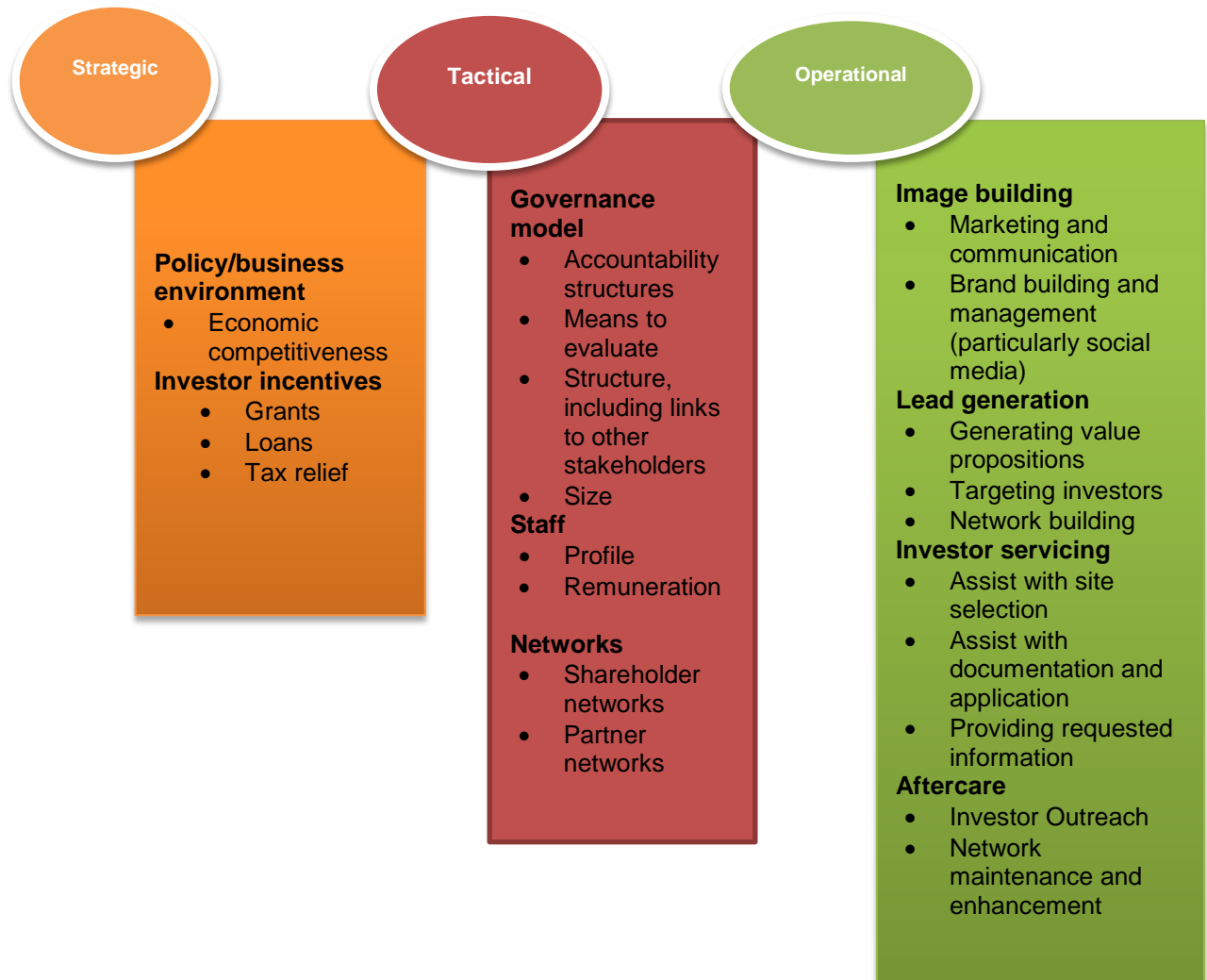
Source: Adapted from DG Enterprise & Industry (2013:4)

Figure 3.1 shows that the framework has three levels from which assessment can be performed, namely the strategic, tactical and operational levels. The strategic sphere is concerned with business environment and investor incentives. These are factors from which the policy will operate, also known as the PESTLE factors (Political, Economic, Social, Technological, Legal and Environmental) with emphasis on the political and economic environment. The second level is the tactical sphere, in which the major forces highlighted are governance, the type of staff needed to drive the investment promotion, and the extent of partner and stakeholder networks. The final level is the operational level, which has four main drivers which are responsible for the implementation of the policy at ground level.

The four main drivers are: image building, investment generation, policy advocacy, and investment aftercare.

The preceding section briefly discussed the two types of investment promotion strategies and the contemporary approaches of developing investment promotion policies, namely the liberal and the regulatory approaches. An investment policy framework was introduced which can be used by policy makers to evaluate their investment policies at any phase. Lastly the four main drivers relating to implementation of the framework were highlighted.

The next section elaborates on the four main drivers of investment promotion, and explores the application of these drivers in host countries.

3.7.1 INVESTMENT PROMOTION DRIVERS

Harding and Javorcik (2011:1446) categorised investment promotion activities into four categories, namely, national image building, investment generation, investor servicing, and policy advocacy. Louis and Alvin (1990:9) similarly describe three main investment promotion techniques, namely, image building, investment generation, and investment services activities.

3.7.1.1 Image building

The national image of a country comprises three types of images, namely, the physical image, the virtual image, and the public cognitive image of a country. The virtual image of a country is the most important as it is constructed by media symbols. The virtual image is decisive in building the public cognitive image. Media symbols and communication patterns are influential in shaping a country's national image (Zhang, 2011:65). Bakhar, Bakhar and Bakhar (2013:25) investigated the effect of country of origin and brand image on purchase intentions of customers. The overall result was a positive relationship between the country of origin and the purchase intentions of a customer. Kesic, Rajh and Kraljevic (2003:1505) confirmed this by stating that the brand image and the country of origin image significantly influenced the consumer product choice and consumer behaviour. The association between the brand image and country of origin image can significantly influence the IPS to domestic and foreign markets. Gotsi, Lopez and Andriopoulos

(2011:255) explored the factors that influence the image transfer when building the country image through a corporate image in Croatia. The results revealed that the main aspects of the image transfer were the following (Gotsi *et al.,* 2011:1509):

- clearly differentiating the country from its neighbours;
- assuring foreign market segments based on healthy-natural lifestyle that these values exist in the country; and
- securing long-term competitive advantage through the country's major tourism attributes.

3.7.1.2 Investment generation

Bodie, Kane and Marcus (2009:1) define an investment as a current commitment of money or other resources with the expectation of accruing future rewards. In the investment generation and promotion context, Jun-Kwon and Valentine (2005:6) identified two objectives of an IDZ that encompass the definition, namely, attracting FDI and generating foreign exchange earnings. In an effort to assure that the future rewards of investment were realised, Asian countries, particularly Korea, experienced a rapid increase in demand for electricity in the 1970s. Korea then ventured into not only managing the supply side activities, but also the demand side activities of electricity in the host country, so as to lower the cost of the investment (Kim, Park & Jin-O, 2008:287). After the earthquake in Haiti in 2010, the International Finance Corporation, a member of the World Bank Group, focused on restoring the country by accelerating investment generation activities. This was done through a $49.9 million commitment from IFC for nine projects in different strategic industries, namely banking, garment, hotel, energy and mining industries, in an effort to boost foreign exchange earnings, stimulate economic growth, and facilitate investment generation (Investment Finance Corporation, 2010:2).

3.7.1.3 Policy advocacy

In 2011 many countries continued to liberate and promote foreign investment in many key strategic industries to stimulate growth through policy advocacy. Subsequent to that, countries continued to introduce new regulations and restrictions in the interest of their own industrial policies. These introductions are

particularly evident for entry policies which are adjusted on a yearly basis for foreign investors (agriculture and pharmaceuticals), outward FDI and extractive industries through nationalisation and divestment requirements (UNCTAD, 2012:75).

In February 2007 the DTI in South Africa published the first IPAP as discussed in Chapter 1 and identified four priority sectors that would receive immediate action, namely, capital (transport equipment), metals (automotive and components), chemicals (plastic fabrication and pharmaceuticals), and forestry (pulp, paper, and furniture) (Department of Trade and Industry, 2011:78). The IPAP is a derivative of the Accelerated and Shares Growth Initiative of South Africa. In 2010 the DTI released IPAP 2 which identified 13 sectors that would be prioritised for the purposes of attracting FDI. According to Lionel October, Director General of the DTI, IPAP is guided by the vision of the National Development Plan and also constitutes a key pillar of the programmatic perspectives set out in a series of 'drivers' and 'packages' contained in the National Gross Product.   He further explains that IPAP is considered as the apex policy document because it informs strategies and programmes of the various divisions of the department. These departments are responsible for trade, investment, the incentive division, export promotion, and enterprise development, which directly supports and underpins the work of the Industrial Development: Policy Development Division (Department of Trade and Industry, 2013:9). Recently there has been a shift of focus on IDZs to forming SEZs by the South African Government for industrial policy implementation (Nel & Rogerson, 2013:206). Figure 3.2 provides a brief breakdown of the transversal interventions that include various policies which support the IPAP such as the developmental trade policy, competition policy, and the SEZ programme.

FIGURE 3.2:   IPAP TRANSVERSAL INTERVENTIONS
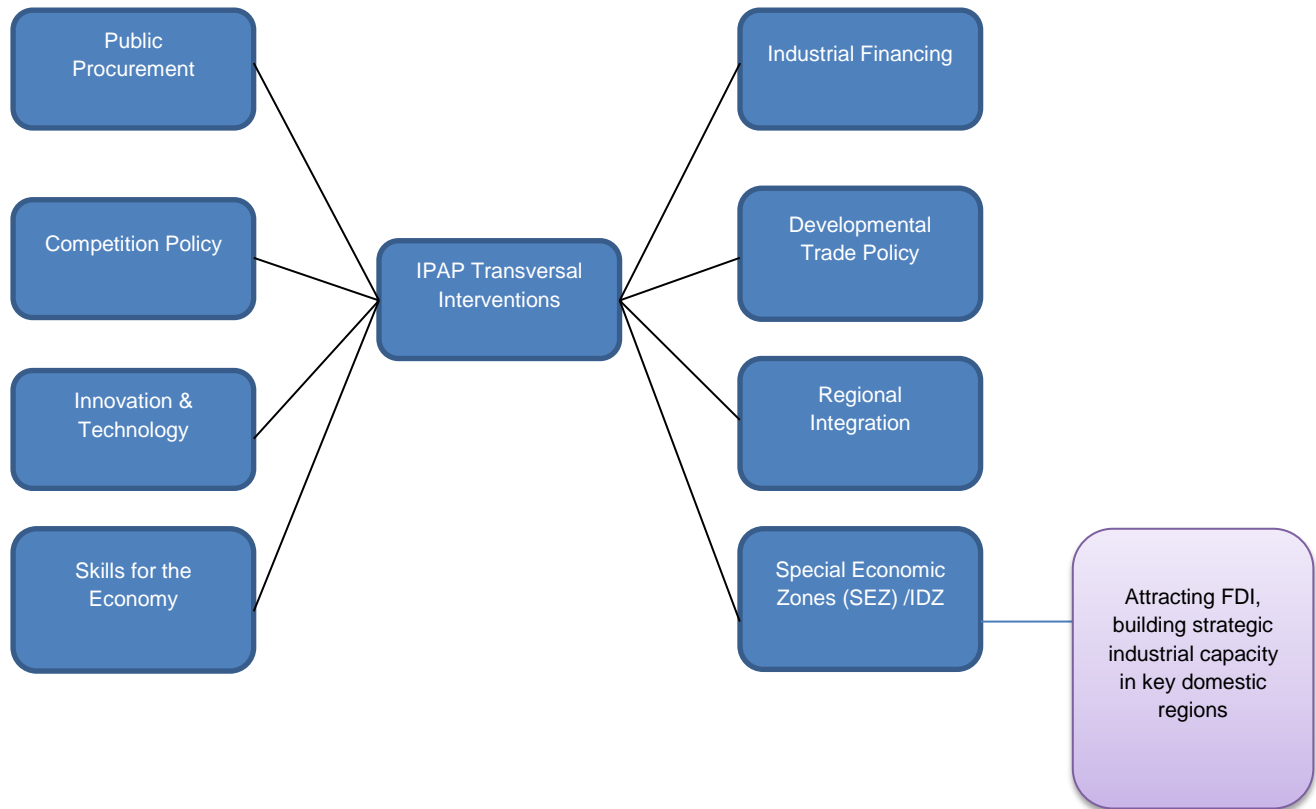
Source: Adapted from Department of Trade & Industry (2013:34)

Figure 3.2 indicates that within the IPAP there are four inputs to the IPAP interventions, namely, the public procurement, competition policy, innovation and technology, and skills for the economy. The policies are translated or implemented through the IPAP over a period of five years. The interventions manifest through the four 'output' components which are industrial financing administered by the IDC, Developmental Trade Policy administered by various government entities, Regional Integration and SEZ administered by the DTI. In the CDC context, the IPAP interventions manifest through the grant funding for attracting FDI. The grant funding is granted on the basis of investor projects with comprehensive business cases and lobbying.

3.7.1.4 Investor servicing

UNCTAD (2007:1) defines 'after investment activities or services' as comprising all potential services offered at the company level by Governments and their agencies, designed to facilitate both the successful start-up and the continuing

development of a foreign affiliate in a host country or region with a view towards maximising its contribution to the local economic development.

Since 2007 the investment climate has been unfavourable for most Eastern Europe countries, particularly Romania due to the financial crisis. These countries can no longer use the traditional incentives to attract FDI in the long term (Emmanuel, 2008:137). The unfavourable investment climate leads countries to explore other avenues of retaining and attracting FDI. The most cost-efficient options are those that are non-financial in nature, which means policy advocacy and investment aftercare (Radulescu & Pociovălișteanu, 2012:109). Huggins (2001:833) explains that this could be difficult to achieve as the country would have to adopt a passive IPS stance. In addition the country would have to increase the perception of good investment aftercare through skills development and relaxing labour market regulations.

The preceding section provided a summary of the four main investment promotion techniques and how these have been applied in different countries. It also highlighted the efforts of the South African government to incorporate trade policy principles in its industrial plan, which aims to drive the investment promotion strategies of both the country and the IDZ.

The following sub section explores the generic investment promotion process that any potential investor is likely to undertake when searching for a suitable investment destination.

3.7.2   THE INVESTMENT PROMOTION PROCESS

FDI capital tends to flow to target countries that offer favourable market conditions and political stability. FDI flows can be influenced by using attractive incentive packages. These incentive packages come at a price for host countries, and involve maximising the investment benefits whilst minimising the promotion costs (Casey, 2013:14). Simeltye (2012:174) investigated the interconnection between FDI determinants and investment promotion in three Baltic States. Three main tools for investment promotion were considered, namely, image building, investment generation, and investment service activities. Three multiple criteria

methods were used to determine the impact of FDI determinants on FDI flow and the role of investment promotion between the two. The results revealed that investment promotion has a strong positive influence on FDI flows as long as investment promotion is introduced in full (Simeltye, 2012:179). According to Kuncic and Svetlicic (2011:66), many countries have acknowledged the relationship between investment promotion and FDI flows. Several countries establish systematic policies for FDI promotion, devised and implemented through IPAs. In contrast, Casey (2013:19-23) warns against host countries, especially LDC, being uncertain about the amounts and types of inward FDI to pursue economic growth when adapting IPAs. Some of the recommendations for policy makers when deciding on investment promotion policies or strategies include the following (Casey, 2013:19-23):

- recognising the limitations of FDI-fuelled growth and development;
- emphasising the importance of regulatory reform and property rights protection in public policy;
- being selective in recruiting Multi-National Companies;
- using subsidies and tax relief programmes selectively to minimise the risks and costs of investment promotion strategies;
- entering into free trade regional arrangements in order to expand market size access; and
- creating an investment promotion programme that is dynamic, not static.

A fair amount of time during the IPS will focus on attracting the potential investor and identifying the host country as a suitable investment destination or location first. Djokoto (2012:47) identifies two broad investment promotion strategies, targeting (focusing on priority areas) and attracting all types of investment (mass approach). In addition there are two main approaches for investment strategies, namely, reactive or proactive. The proactive approach is when investment promotion practitioners actively seek investment, and the reactive approach entails investment promotion practitioners reacting only when there is an enquiry from a potential investor (IBM Corporation, 2013:2). Regardless of the type of approach chosen, the investment location decision-making process for potential investors remains the same. Figure 3.3 highlights the steps a typical potential investor

follows in order to choose a suitable location for mobile investment projects.

FIGURE 3.3:   STEPS IN LOCATION SELECTION FOR MOBILE INVESTMENT PROJECTS
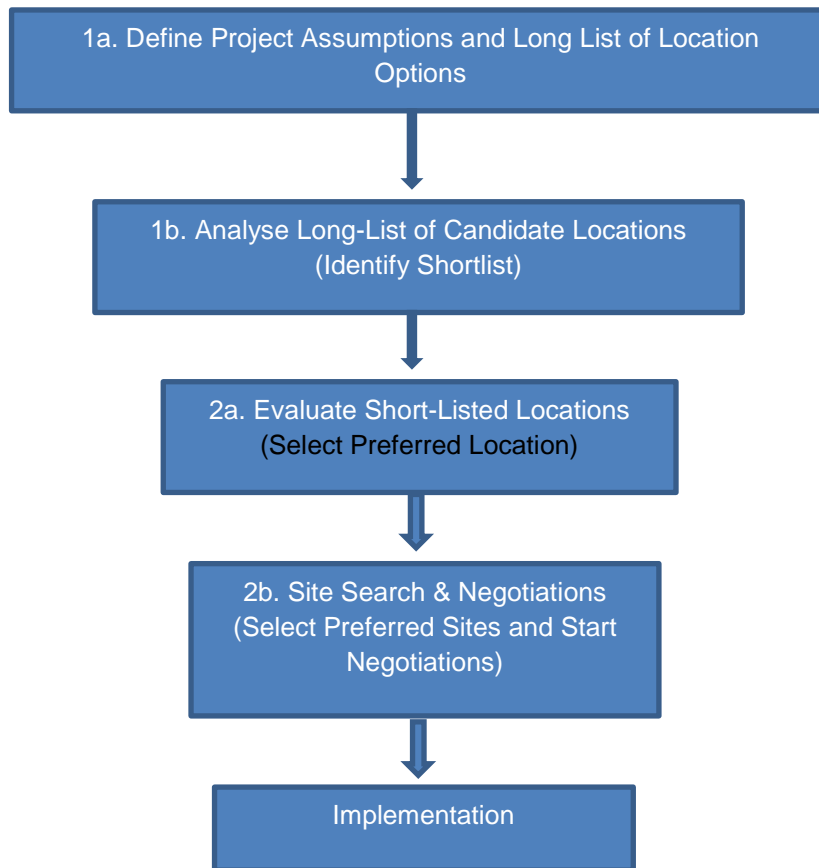
Source: Adapted from IBM Corporation (2013:3)

Figure 3.3 outlines the five steps through which a potential investor goes before deciding to locate at a particular location. These steps are defining the project assumptions and location options, identifying the shortlist of location options, selecting the preferred location, selecting the preferred sites and negotiations, and lastly the implementation of the investment project. The first two steps involve de-selecting less attractive locations; the decision could be based on desktop research of the business case, and focus on key cost and quality drivers. The second and third steps focus on a detailed analysis of factors, assessment of implementation risks, feasibility of acquiring the benefits from the business case, a shortlist of location, interviews and negotiations (IBM Corporation, 2013:4). Should the potential investor decide to locate into the designated area (implementation)

then the negotiation process commences. Table 3.3 describes the internal process used by the CDC in committing a potential investor to locate in the Coega IDZ through a signed lease agreement.

TABLE 3.3:   CDC INVESTOR INTERACTION AND NEGOTIATION PROCESS

INVESTOR ENGAGEMENT	PROPOSAL DEVELOPMENT	PRELIMINARY OFFER AND HEADS OF AGREEMENT	DUE DILIGENCE AND FINANCIAL CLOSURE	FINAL CONTRACT	CONDITIONS PRECEDENT MANAGEMENT
• Business assessment • Preliminary due diligence • Environmental Scan • Preliminary Project Plan • Site Allocation and Infrastructure • CDC Services Assessment • Buildings	• Environmental • Site • Infrastructure • CDC Services • Project Plan • Buildings	• Preliminary Offer • Heads of Agreement • Conditions not yet fulfilled • Buildings	• Due Diligence • Risk Management Committee • Executive Management/ Board of Directors • Conditions not yet fulfilled	• Final Contract • Conditions not yet fulfilled • Close Out Report	• Finalisation and meeting of conditions precedent • Commercial Investor handover to Investor Services Management and Facilities Management

Source: Adapted from Zeiss (2011:1)

Table 3.3 outlines the entire process of the investor attraction and negotiation operation. The process involves six phases, of which the first is co-ordinated by the business development account manager. The investor engagement phase involves the assessment of the business needs, conducting preliminary due diligence, establishing whether the investor requires a building, and most importantly, completing a business solution assessment. The second to the fifth phases are overseen by the Commercial Unit, which involves drafting the preliminary offer (term sheet), taking the term sheet through the relevant internal structures for vetting, and finally once approval has been granted, the drafting of the final lease agreement. Table 3.4 lists the investment projects that have resulted in a signed lease agreement through the internal CDC investor interaction and negotiation process from 2009 to 2013 at the Coega IDZ.

TABLE 3.4:   LIST OF INVESTMENT PROJECTS IN THE COEGA IDZ FROM 2009 TO 2013

NAME OF PROJECT	LAND PER m²	CONSTRUCTION VALUE
General Motors Pan Africa Distribution Centre (SA/USA)	40 000	R 160 000 000
DCD (SA)	24 000	R 150 000 000
Rehau and Expansion (Germany)	24 000	R 140 000 000
Benteler (Germany)	22 000	R 140 000 000
Grupo Antolin (Spain)	10 000	R 64 000 000
Faurecia (French)	10 000	R 62 000 000
Dynamic Commodities (SA)	6 000	R 60 000 000
Cerebos (SA)	2 500	R 60 000 000
Cape Concentrate (SA)	5 000	R 60 000 000
Coega Dairy (SA)	3 000	R 30 000 000
Accoustex (SA)	4 600	R 30 000 000
UTI Couriers (SA)	3 000	R 25 000 000
Coega Cheese (SA)	2 500	R 24 000 000
Famous Brands (SA)	3 000	R 20 000 000
Digistics (SA)	2 000	R 15 000 000

Source: Adapted from CDC construction portfolio (2013:2)

Table 3.4 outlines the investors who have signed lease agreements with the CDC through negotiations, and have undertaken the necessary locational steps. The largest project in size is the General Motors (GM) Warehouse, situated in Zone one. The warehouse distributes GM automotive components and parts for all dealerships in Africa. The value of the GM Warehouse is R160 million and it occupies a space of 40 000 m². The second largest project is DCD (SA) which covers 24 000 m² and cost R150 million.

Of the free trade zones, IDZs are much larger in size than SEZs because the typical SEZ is between 200 and 300 hectares compared to a typical IDZ which occupies approximately 11 000 hectares. One of the major concerns of IDZs is the size of the land they occupy. In the case of the Coega IDZ, some families had to be moved to other parts of the Motherwell community in Port Elizabeth, to make way for sectoral zones within the IDZ. SEZs, on the other hand, occupy a fraction of the land occupied by IDZs and are more sector-driven. According to the Republic of South Africa (2013:1), there has been a shift of focus from IDZs to

SEZs in South Africa's industrial policy.

The following section explores the reasons for the South African government's shift from existing IDZs to SEZs.

3.8   SPECIAL ECONOMIC ZONES

The idea of reserving an area or region of a country and granting special economic incentives and laws, is an old notion. The free ports of the Hanseatic League in north Germany in the thirteenth century are seen as the first privileged zones for economic development. In 1948, Puerto Rico was established as a free trade zone in Mexico (Nel & Rogerson, 2013:210). SEZs are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements that may include laws and systems that are often different from those that apply to the rest of the country (Republic of South Africa, 2013:1; Nel &Rogerson , 2013:205). SEZs will become the appropriate investment locations for attracting FDI, domestic investment, and key levels of long-term industrial and economic development. The current existing IDZs will be converted to SEZs in a period of five years from when the SEZ Bill is signed into law by the South African President in 2014. The DTI has cited the following four weaknesses in IDZs which resulted in the shift in industrial policy (Republic of South Africa, 2013:1):

- weak governance;
- lack of IDZ incentives;
- poor stakeholder coordination; and
- lack of integrated planning.

Ge (2012:1) supports the shift in industrial policy by the South African government, but emphasises that the SEZ concept will prove to be an effective policy only if it is implemented correctly. In time, the policy will improve and facilitate greater economic openness, and contribute to economic growth. In the case of China and Africa, Mangra, Sperdea, Celenkovic and Cojocara (2011:132) note that China has started to establish Chinese zones in Africa, and to a large extent, these zones employ African workers. Unlike in Asian countries, these zones need strong

communication channels with local communities.

The previous section explored SEZs and why the South African government has chosen to convert the existing IDZs to SEZs. The section also briefly discussed the difference between Asian and African SEZs. There is little difference in the way one would implement an IPS for an IDZ or SEZ. The determinants of FDI that would be factored in the IPS for IDZ, will remain the same for an IPS crafted and executed for an SEZ.

The following section will explore the determinants of FDI and provide a summary of all the determinants identified in previous chapters.

3.9   DETERMINANTS OF FDI

There are a number of determinants of FDI that have been identified from the early 1980's and the late 1990's (Balasubramanyam, 2001:2). These determinants are still of relative importance, and during the stated period, literature has emphasised the following as important determinants (Balasubramanyam, 2001:2):

- domestic markets measured by GDP per capita;
- growth of domestic markets measured by growth rates of GDP;
- resource endowments such as natural and human resources;
- infrastructure facilities such as transport and communication networks;
- macroeconomic stability supported by stable exchange rates and low inflation rates;
- political stability including stable and transparent policy frameworks;
- control over the business model;
- fiscal and monetary incentives in the presence of a stable economic environment; and
- preferential trading agreements between prospective countries.

Owusu-Antwi (2012: 762-765) identifies similar determinants for African countries which are classified as either being developing or underdeveloped. On a much broader scale, Sawalha, Mazouz and Pellet (2013:76) conducted a study in selected developed, developing, and underdeveloped countries. They explored the

correlation between the FDI (dependent variable) and nine independent variables, namely, Gross National Income (GNI) per capita, human capital, financial capital, natural resources, power, transportation, communication, leadership and level of technology. The results revealed that countries that have a higher level of financial capital (gross capital formation), human capital (large skills pool and workforce), energy (electricity production kWh) and natural resources, have a higher chance of attracting more FDI inflows.

Owusu-Antwi (2012:762) states that although the list of factors is long, not all determinants are equally important to every investor in every location at all times. Lubisi (2010) demonstrates the importance of this statement in a series of questions presented to a potential investor at a particular time during the business solutions assessment phase, administered by the investment promotion practitioner at the Coega IDZ. Table 3.5 summarises the list of questions presented to the potential investor in the process of attracting investment to the Coega IDZ.

TABLE 3.5:   LIST OF QUESTIONS FROM THE COMMERCIAL BUSINESS SOLUTIONS ASSESSMENT

PROJECT DESCRIPTION QUESTIONS	
1.	Anticipated implementation schedule? Construction schedules etc.
2.	Assistance sought from CDC? Work permits, resident permit etc.
3.	Customs and Logistics required? Exporting or importing etc.
4.	Estimated investment costs? Capital equipment etc.
5.	Anticipated direct employment? Number of jobs etc.
6.	Estimated development size? Land (hectares), square metres etc.
7.	Nature of building requirements? Factory, warehouse etc.
8.	Infrastructure requirements? Utilities, Transport etc.
9.	Environmental requirements? Environmental Impact Assessment etc.

Source: Adapted from Lubisi (2010: 4-9)

Table 3.5 indicates the type of FDI motives that are elicited from a potential investor by the negotiator during a needs assessment in order to form a solid basis of negotiation. During this process, a number of determinants of the investment become evident to the negotiator. Table 3.6 shows all the prominent determinants of FDI identified from literature as discussed in Chapters 2 and 3.

TABLE 3.6:   PROMINENT DETERMINANTS OF FDI

Property
Sources: Dah & Khadijah, 2010; Djokoto, 2012:48; Dunning, 1977:396; Dunning, 1988:3; Dunning, 2001:173-174; Hymer, 1976:43; Wang *et al.*, 2011:268.
Infrastructure
Sources: Barclay, 2000: 207-213; Faeth, 2009:183-184.
Economic aspects for exports
Sources: African Economic Outlook, 2013; Altman, 2006:627; Banerjee *et al.*, 2008:718; Faeth, 2009:171; Heese, 2000:389; Lunn, 1980:94.
Incentives
Sources: Emmanuel, 2008:137; Nel & Rogerson, 2013:205; Van Parys & James, 2013:400.

Source: Researcher's own compilation

In Table 3.6, determinants of FDI, namely, property, exports, incentives and infrastructure, were identified as having a possible influence on FDI. These four determinants correspond with the four different types of international FDI found in the literature review.

3.9.1   DETERMINANT 1 – PROPERTY

'Property' refers to the terms the investors will obtain when negotiating the land or the building from which the firm will operate (Lubisi, 2010:4-9).These terms are important because the asset-seeking type of FDI is attracted by low-cost locations which include the cost of land and building (The three types of FDI explained, 2007:34). As previously mentioned in Chapter 2, Barclay (2000:203) investigated the motivations, locational choices and market entry mode selections of MNE when investing in three Caribbean countries. In the study, all three types of FDI were examined, namely, market-seeking, resource-seeking and export-seeking. The research results revealed that all three Caribbean countries owned areas for export-orientated activity. Jamaica was the only country that called it an EPZ. The results also revealed that the land or location was important to foreign firms' initial investment decisions (Barclay, 2000: 207, 213).

3.9.2   DETERMINANT 2 – INFRASTRUCTURE

'Infrastructure' refers to the physical facilities of the IDZ such as roads, access to suppliers, customers, utilities, and transport (Western Economic Diversification Canada, 2012). Wadhaw and Reddy (2011:219) state that a resource-seeking FDI is geared towards gaining access to low-cost raw materials, pool of labour, and most importantly, infrastructure. When Barclay (2000:203) investigated the motivation and market entry modes of MNEs, the results showed that the predominant motivator of FDIs was the costs of infrastructure. The reliability and quality of the general infrastructure services utilities (water and electricity), airline service, and public transport all contributed to the decision for located FDI to continue operations in Jamaica and Trinidad. In South Africa, part of the IPAP focuses on infrastructure. The action plan emphasises infrastructure development, regional integration and thorough industrialisation amongst other initiatives to attract FDI (Department of Trade & Industry, 2011:11). This is consistent with the above-average business infrastructure and services that foreign investors tend to be provided with in the host country, compared with those available in their countries of origin (Western Economic Diversification Canada, 2012).

3.9.3   DETERMINANT 3 – ECONOMIC ASPECTS FOR EXPORTS

'Economic aspects for exports' refer to the expected macro and micro economic climate that will facilitate a positive balance of payment for the free trade zone. The ideal FDI should be a net exporting type of FDI. This type of FDI will in the long run have an overall positive effect on the supply and demand of the domestic currency to foreign markets, thus improving the value of the domestic currency. The high demand for the domestic currency by foreign markets will positively influence the balance of payments of the host country (Howells & Bain, 2005:585). The foreign exchange rate is the price of one currency for another. The financial institution or market that facilitates the exchange of foreign currencies is known as the 'foreign exchange market' (Appleyard *et al.,* 2008:479). The aspiration for a net exporting type of FDI is also portrayed in the IPAP which recognises the need for sustainable long-term development which is supported by exports within the free trade zone (City Press, 2013:1). Similarly, Smith (2002:3) defines an IDZ as an industrial park where manufacturer-exporters set up production plants for direct sale to foreign wholesalers. It is clear that one of the determinants of attracting FDI

is a conducive economic climate which allows for exporting. The climate is further assisted by IDZs being adjacent to a port or harbour, to allow for exporting (South African Revenue Service, 2010).

3.9.4 DETERMINANT 4 – INCENTIVES

The incentives are the administered fiscal incentives by government, which are administered through various national departments and public entities such as the IDC, National Treasury, and SARS (Department of Trade & Industry, 2013:34). These fiscal incentives have been present in free trade zones and have been adapted to the realities of the local conditions of the host country, and each region has special incentives designed to attract foreign investors (Jun-Kwon & Valentine, 2005:4). For example, Emmanuel (2008:137) analysed the influence of fiscal incentives on FDI in the sub-Saharan Africa, on a sample consisting of 16 sub-Saharan Africa countries. The overall finding was that traditional fiscal instruments and policies by governments were important in attracting FDI in the sub-Saharan Africa. The study found that the most important traditional fiscal incentive was tax holidays. In contrast to the study by Emmanuel (2008), Van Parys and James (2013:400) conducted a similar study in the French-speaking sub-Saharan Africa regions concerning tax incentives. It was found that there was no strong positive relationship between tax incentives and investment in the French-speaking sub-Saharan Africa region. The study found that an increase in the number of legal guarantees for investors and a simple tax system could be used to attract FDI (Van Parys & James, 2013:400).

The previous section has discussed the four main determinants of FDI identified from the general literature.

3.10 SUMMARY

Chapter 3 has highlighted the four main types of FDI that are common to host countries. These include market, resource, efficiency, and asset-seeking FDIs. The chapter also indicated the classifications of FDI in terms of the objective, relevant alternatives, internalisation determinants and localisation determinants. Market-seeking FDI was predominantly concerned with market growth, the resource-seeking FDI values natural endowments of that particular continent,

efficiency-seeking FDI took advantage of special features such as the labour force, quality and efficiency of infrastructure, and the asset-seeking type of FDI strove for acquiring local companies and market knowledge. The chapter also discussed other aspects of the investment promotion concept such as the investment promotion drivers, which included image building, investment generation, policy advocacy, and available investment services activities. The investment promotion process was explored, which is a crucial process for capital budgeting decisions for any potential investor. The overall determinants of FDI identified from the literature namely, property, infrastructure, economic aspects for exports and incentives were discussed and summarised. Attention was also given to SEZs and their role from a South African industrial policy perspective.

The following chapter discusses the hypothetical model derived from the general literature and the identified determinants of FDI.

CHAPTER 4

THE HYPOTHETICAL MODEL AND DETERMINANTS OF FDI

4.1   INTRODUCTION

Chapter 3 explored the four main types of international FDI and how investment promotion attempts to attract FDI to the host country. The chapter defined and described the characteristics of the different types of international FDI present in the world. Reference was also made to the investment promotion process. The 2013 transition of IDZs to SEZs driven by the South African government and the reasons for doing so, was set out. The chapter then summarised all the prominent determinants of FDI from Chapters 2 and 3, as indicated in the general literature overview.

Chapter 4 builds a foundation, provides justification for the chosen determinants of FDI, and also provides the basis for testing these chosen determinants of FDI. The importance of the chosen determinants of FDI for the CDC will be defined and contextualised. The hypothetical model derived from the literature is reintroduced along with the chosen independent variables and the intervening and dependent variables.

4.2   DETERMINANTS OF FDI AND THE HYPOTHETICAL MODEL FOR THE STUDY

This study will investigate the extent to which the four predetermined variables which were identified in the literature, namely property, infrastructure, economic aspects for exports and incentives, can possibly influence the CDC IPS and how the IPS will influence the number of signed investors at the CDC.

Given the problem statement in Chapter 1, five hypotheses were identified.   For ease of reference, Figure 1.7 is now reproduced as Figure 4.1.

FIGURE 4.1:   HYPOTHETICAL MODEL OF VARIABLES INFLUENCING THE CDC IPS AND NUMBER OF SIGNED INVESTORS

Independent variables   Intervening variable   Dependent variable
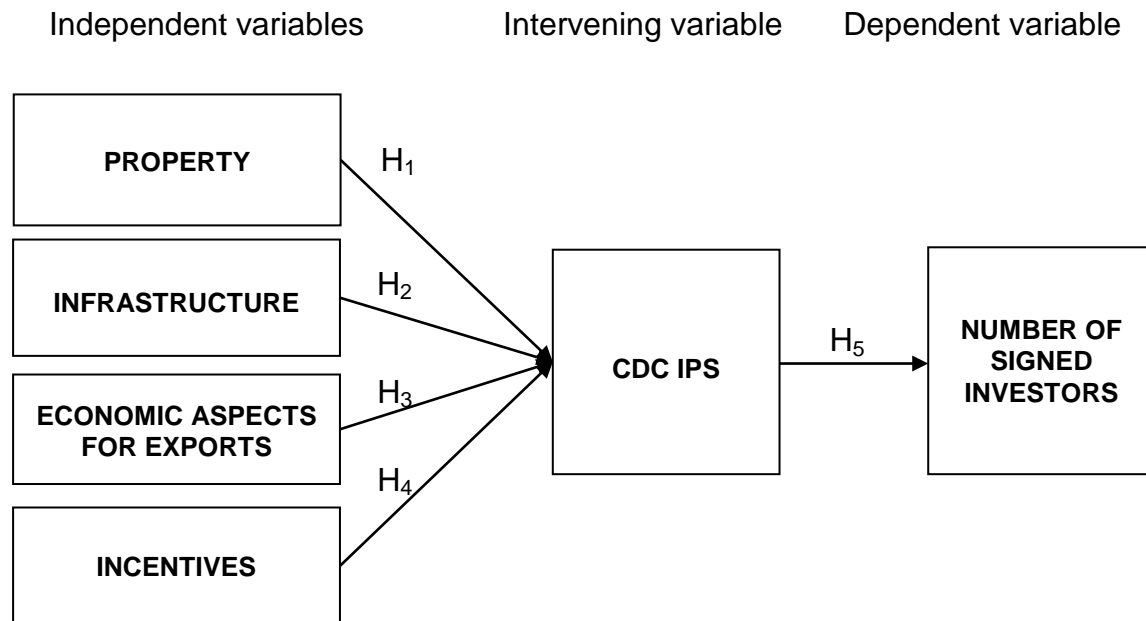
Source: Researcher's own model

Figure 4.1 illustrates that the following hypotheses have been prepared in order to test the relationships in the proposed hypothetical model:

H_1:   There is a significant relationship between *property* and the *CDC IPS*.

H_2:   There is a significant relationship between *infrastructure* and the *CDC IPS*.

H_3:   There is a significant relationship between *economic aspects for exports* and the *CDC IPS*.

H_4:   There is a significant relationship between *incentives* and the *CDC IPS*.

H_5:   There is a significant relationship between the *CDC IPS* and the *number of signed investors* in the CDC.

According to Hussey and Hussey (1997:11), a variable is an attribute of an entity that can change and take different values which can be observed or measured. An intervening variable is defined as the factor that affects the observed phenomenon,

but cannot be seen, measured, or manipulated (Blumberg, Cooper & Schindler, 2005:49). A dependent variable is the variable whose values are predicted by the independent and intervening variable (Hussey & Hussey, 1997:143; Zikmund *et al.,* 2010:99). The independent variables are the variables on which the dependent variable is based. Other than predicting the value or outcome, the mathematical technique can also determine whether a relationship exists between the independent variable and the dependent variable, by employing a correlation analysis (Keller & Warrack, 2003:603).

From the formulated hypotheses, Table 4.1 summarises the definitions and the discussions by various authors concerning the determinants of FDI (independent variables), the CDC IPS (intervening variable) and the number of signed investors in the CDC (dependent variable). In addition the number of statements in the measuring instrument that will cover each variable, are provided.

TABLE 4.1:   DEFINING INDEPENDENT, INTERVENING AND DEPENDENT VARIABLES

Independent variable: Property	Statements
'Property' refers to the terms the investors will get when negotiating the land and/or buildings from which the firm will operate.	8
Source: Dah & Khadijah, 2010; Djokoto, 2012:48; Dunning, 1977:396; Dunning, 1988:3; Dunning, 2001:173-174; Hymer, 1976:43; Wang *et al.*, 2011:268.	
Independent variable: Infrastructure	Statements
'Infrastructure' refers to the physical facilities of the Zone/Park such as roads, access to suppliers, customers, utilities, and transport.	11
Source: Barclay, 2000: 207, 213; Faeth, 2009:183-184.	
Independent variable: Economic aspects for exports	Statements
'Exports' refer to the expected macro and micro economic climate the investor will compete in, to make a profit once operational in the Zone/Park.	6
Source: African Economic Outlook, 2013; Altman, 2006:627; 2013; Banerjee *et al.*, 2008:718; Faeth, 2009:171; Heese, 2000:389; Lunn, 1980:94.	
Independent variable: Incentives	Statements
'Incentives' refer to the administered fiscal incentives by government which are administered through various national departments such as the Receiver of Revenue and Treasury.	7
Source: Emmanuel, 2008:137; Nel & Rogerson, 2013:205; Van Parys & James, 2013:400.	

TABLE 4.1: DEFINING INDEPENDENT, INTERVENING AND DEPENDENT VARIABLES (cont)

Intervening variable: CDC IPS	Statements
'CDC IPS' refers to the collective efforts by the CDC to attract investment during the five-year period from 2009 to 2013.	10
Source: Coega Development Corporation, 2013a:5; DG Enterprise & Industry, 2013:4; Harding & Jarvorcik, 2011:1445; IBM Corporation, 2013:3; Republic of South Africa, 2013:1; Wells & Winnt, 2000:2; Zeiss, 2011:1.	
Dependent variable: Number of signed investors	**Statements**
'Number of signed investors' refers to investors with signed lease agreements with CDC.	9
Source: DG Enterprise & Industry, 2013:4; Dunning, 1977:48; Huggins, 2001:833.	

Table 4.1 identified and defined the independent, intervening, and dependent variables from the previous chapters. Each relevant variable is explained in the table, as well as the number of statements used in the questionnaire that were derived from the literature concerning the variable. The definitions are based on the existing literature that was covered in Chapter 3. It should be noted however that no previous research has been done on these variables.

4.3   INDEPENDENT VARIABLES

The variables make a significant contribution to the CDC IPS value proposition to potential investors. The following sub section contextualises the significance of each variable in attracting FDI and IPS efforts by the CDC in the Eastern Cape.

4.3.1   PROPERTY

'Property' refers to the terms the investors will obtain when negotiating the land or building from which the firm will operate. In the CDC context, the availability and price of land or the type of building from which the investor will operate play an important role. An uncompetitive rental or undesirable location could deter the investor from signing a lease agreement with the CDC. With regard to Asian investors, apart from high costs in financing and labour avoided by the Chinese market, the size and price of the land play a major role in the international customer investment decision process which considers economic determinants of FDI (Wang *et al.,* 2011:268). At the CDC site location, selection and negotiations are administered by the Spatial Development Unit (SDU) and the Commercial Unit.

The potential investor has a choice whether to rent or own the building from which the firm will operate. Should the investor choose to own the building, he/she will be liable only for the land rentals. Alternatively, should the investor choose CDC to own the building, then he/she will be liable for both the land and building rentals. The rental cashflows received will be a source of revenue through which the CDC will fund its future operations of attracting FDI. This choice by the potential investor forms the basis of the lease agreement between the potential investor and CDC. CDC only provides the potential investor with the rental of land, and not ownership. The land is regarded by the DTI, which is the CDC's majority shareholder, as a national asset (Lubisi, 2010:4-9). Barclay (2000:203) investigated the motivations, locational choices and market entry mode selections of MNEs when investing in three Caribbean countries. The results demonstrated that the land or location was important to foreign firms' initial investment decision (Barclay, 2000: 207-213).

4.3.2   INFRASTRUCTURE

'Infrastructure' refers to the physical facilities and permanent structures of the IDZ such as roads, access to suppliers, customers, water, electricity, and staff transport within the IDZ (Western Economic Diversification Canada, 2012). Amadasun and Ojeifo (2011:135) list infrastructure as one of the predominant motivators of FDI in Africa. The Coega IDZ was established to improve the delivery of infrastructure in the Eastern Cape and also the inefficiencies that characterise delivery of infrastructure by government in South Africa and the Eastern Cape Province in particular (Coega Development Corporation, 2013a). The expedition of delivery of infrastructure then will result in above-average infrastructure. Jun-Kwon and Valentine (2005:6) insist that an IDZ should have above-average business infrastructure. In the CDC context, this can refer to the CDC-owned buildings, rail, roads, and fenced areas which extend to the harbour adjacent to the Coega IDZ. Future infrastructure can include development plans by other public entities which are in partnership with the CDC (Tiya, 2008:7).

4.3.3   ECONOMIC ASPECTS FOR EXPORTS

One of the determinants for attracting FDI is a conducive economic climate which allows for export. Exporting aspects, particularly the balance of payments resulting from exports by signed investors in the Coega IDZ, are important. Smith (2002:3) defines an IDZ as an industrial park where manufacturer-exporters set up production plants for direct sale to foreign wholesalers. A conducive climate for exporting is further assisted by IDZs being adjacent to a port or harbour to allow for export (South African Revenue Service, 2010). Ndikumana and Verick (2008:713) identified the private sector as a driver of FDI, and Anyamele (2010:38) have investigated the impact of FDI, exports and the educational attainment on sub-Saharan Africa economic growth. The results showed that FDI and exports have a significant impact on output growth in sub-Saharan Africa. In the CDC context, there are two investors that are export-orientated, namely Cerebos and Dynamic Commodities. Their export figures are requested by the DTI through the CDC administration on a quarterly basis. The figures are provided in monetary terms and in the form of tons exported. The CDC reports to the DTI on the progress of attracting export-orientated FDI on a quarterly basis. Performance on attracting FDI, that is, export-orientated, forms part of the annual targets of the CDC IPS (Grebe, 2013:7).

4.3.4   INCENTIVES

'Incentives' refer to the administered fiscal incentives by government, which are administered through various national departments and public entities such as the IDC, National Treasury and SARS (Department of Trade & Industry, 2013:34). In the CDC context, these incentives form part of the value proposition to a potential investor, even though they are administered at national level. Currently, the incentives that are available to signed and potential investors are as follows:

- 15% corporate tax – a lower tax margin compared to the 28% paid by companies outside the IDZ;

- building allowance – a subsidy for the building from which the potential investor will operate;

- employment incentive – a subsidy for employing youth aged between 18 and 35 years as part of the staff complement; and

- customs-controlled area – a facility that allows potential investors to pay no import and export duties (Special Economic Zones Bill, 2013:2).

After having contextualised the independent variables in the model, it is necessary to focus on the nature of the IPS (intervening variable) at the CDC, which to a large extent influences the number of signed investors in the CDC.

4.4 INTERVENING VARIABLE

According to Tiya (2008:2-27), the Business Development Unit in the CDC prepared a five-year IPS which would be reviewed in 2013. The IPS had an end target of investment value into the IDZ of R50 billion. The IPS defined four pillars namely:

- sources of FDI (countries and companies);
- industrial sectors (automotive, chemical, textiles etc.);
- competition (other free trade zones, other South African provinces, other African countries etc.); and
- partners (Eastern Cape Development Corporation, Nelson Mandela Metropolitan Municipality, Department of Trade and Industry etc.) and competent staff.

The CDC IPS is implemented through the Business Development unit.

Figure 4.2 illustrates the Business Development unit organogram, the section responsible for implementing the IPS (Global Markets) and its staff.

FIGURE 4.2:   BUSINESS DEVELOPMENT UNIT AND GLOBAL MARKETS
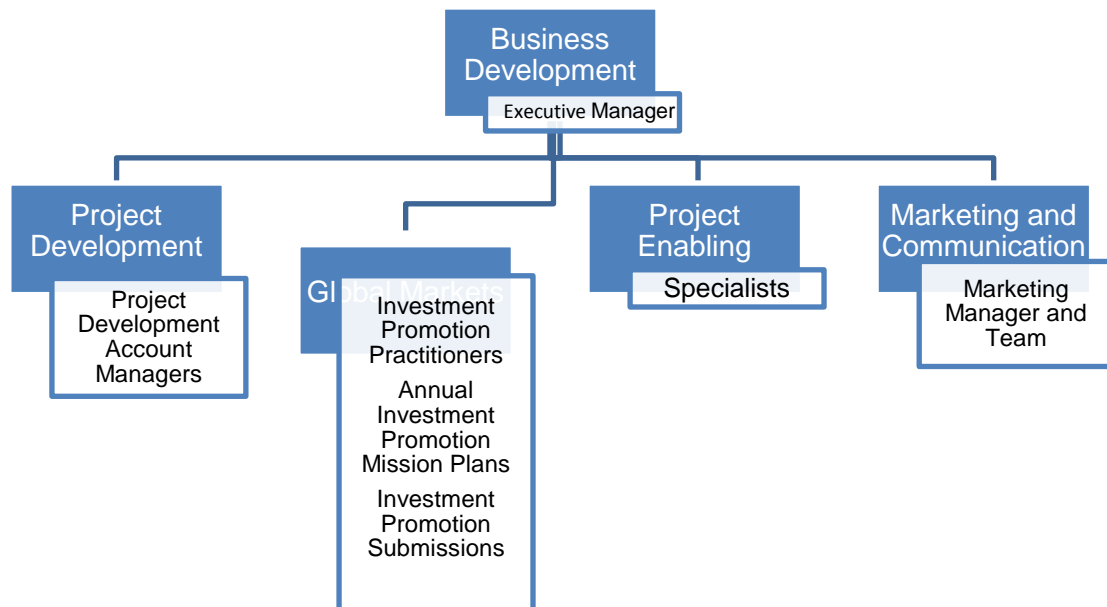
Source: Tiya (2008:11)

From Figure 4.2 it can be seen that there are four sections in the Business Development Unit, namely Project Development, Global Markets, Project Enabling and Marketing & Communication. According to Tiya (2008:10-12), the Marketing and Communication section assists in the targeting of investors, informing potential investors of the opportunities at the CDC, and communicating the unique selling propositions when signing with the CDC. The Project Development and Enabling section assists in coordinating the auxiliary departments within the CDC depending on the needs of the potential investor. The section responsible for implementing the CDC IPS is called Global Markets. The main aim of this section is to attract FDI into the Coega IDZ by means of drawing up annual investment promotion mission plans. The annual plan defines the type of FDI sought by sector, industry, and region, to increase the number of signed investors. The investment promotion practitioners in the section are also responsible for compiling investment promotion submissions which are approved by the IP stream for travelling abroad. Apart from the IPS strategy, there will be auxiliary business units which will act as vital support during the five years from 2008 to 2013. Figure 1.3 is reproduced as Figure 4.3 indicating the business units that play a supporting role to the IPS of the CDC from 2008 to 2013. It highlights the support structure

that was conceptualised in 2007/8 by the business development team.

FIGURE 4.3:   SUPPORTING BUSINESS UNITS TO THE CDC FIVE-YEAR STRATEGY (2008/9-2012/13)
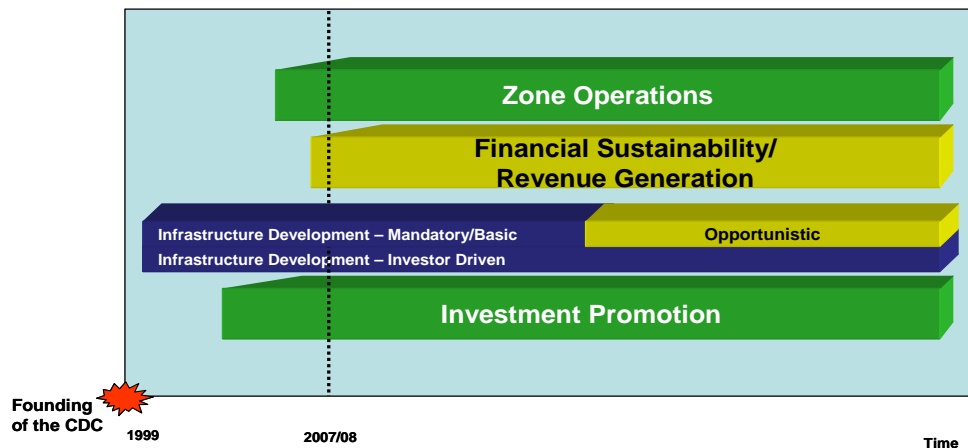
Source: Adapted from Tiya (2008:5)

From Figure 4.3 it can be seen that the IPS is supported by three main phases namely the zone operations, revenue generation, and infrastructure development. The three phases will support the strategy in which there is an opportunity or business case for a potential investor. The first phase, the infrastructural development, involves identifying a site and construction of a building from which a potential investor will operate. The second phase is financial sustainability, which gives the investor various funding models to enable operation in the short or medium term. Upon operation, the investor is supported by various business units to ensure sound day-to-day operations and investor services. This support structure was envisioned as lasting for the duration of the five year CDC IPS and assisting in attaining the desired end result. The model is also supported by operational (Business Development and Commercial) and non-operational structures that will ensure effective implementation of the CDC IPS by way of approval of various investment promotion initiatives. Figure 4.4 denotes the hierarchy that governs the approval of investment promotion missions in search of FDI.

FIGURE 4.4:   HIERARCHY OF CDC IPS STRUCTURES
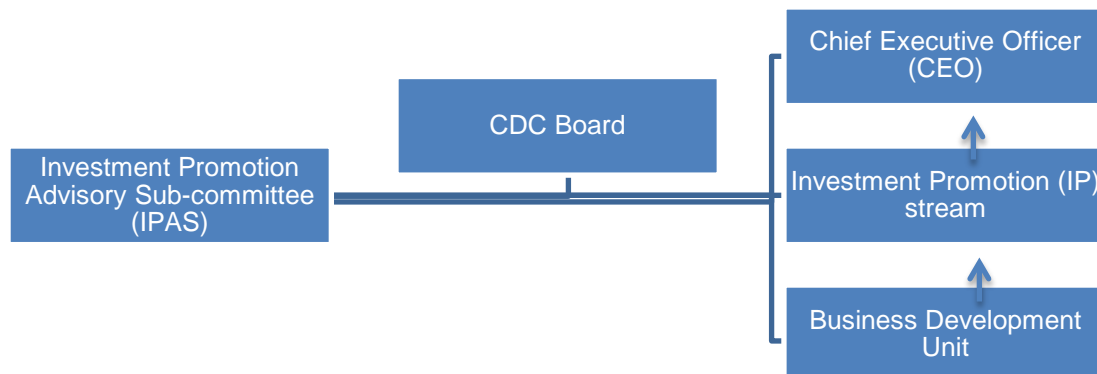
Source: Adapted from Simayi (2013:4)

Figure 4.4 highlights the two main structures that are part of the investment promotion framework at the CDC, namely the IPAS and the Investment Promotion (IP) stream. The IP stream mainly consists of investment promotion practitioners and research staff, and reports to the CEO. The IPAS comprises the board members who serve on the CDC Board of directors. According to Simayi (2013:16-17), the main functions of the Investment Promotion stream are the following:

- ensuring that there is co-ordination of the firm's efforts in promoting investments;
- ensuring that the firm has an understanding of the investment promotion process;
- providing a platform for review of the investment promotion projects;
- identifying areas of intervention and co-ordination for further effectiveness of project delivery;
- providing a forum through which to review IPSs;
- ensuring co-ordination and assist in the alignment of investment promotion to the growth areas that CDC has agreed upon;
- prioritising agreed strategies, co-ordination of projects, and making recommendations;
- ensuring ongoing communication about issues linked with investment

promotion;

- integrating issues of people development into the investment promotion efforts;
- arranging extensive brainstorming sessions on strategies for investment promotion; and
- reviewing, recommend and / or approve international trips as delegated by the CEO.

The purpose of the IPAS is to give support to the IP stream in terms of leads, referrals, and identifying potential investors. The main functions of the IPAS according to Simayi (2013:10) are as follows:

- reporting to the Board on all matters relating to the promotions of investment suitable to the Coega IDZ;
- ensuring and overseeing a targeted approach to investment;
- considering, advising and recommending to the Board potential projects suitable for the Coega IDZ, including requisite infrastructure projects;
- ensuring a formal risk management strategy with regards to marketing and investment promotion; and
- ensuring that every potential investment has accommodation for Black Economic Empowerment (BEE) as required by the relevant sector transformation charters.

Apart from the main functions of the Investment Promotion Stream the CDC Board together with the CEO have identified seven other performance indicators for the CDC. Table 4.2 highlights the seven key performance indicators (KPIs) of the CDC since inception namely number of jobs created, accumulative investment value, revenue generation, accumulative number of signed investors by the CDC, increase in the portfolio of projects for consulting services to government departments, number of people trained and the SMME development.

TABLE 4.2:   SEVEN CDC FORECASTED KPIS INCLUDING THE NUMBER OF SIGNED INVESTORS

Targets	2008/2009	3 Year View (2010/11)	5 Year View (2012/13)
Number of Jobs Operational (per annum)	1 305	12 000	20 000
Investment Value (accumulative)	R 28 billion	R30 billion	R50 billion
Revenue Generated	R43.84 million	R 100 million	R250 million
Number of signed investors (Accumulative)	8	60	100
SMME as % of procurement (per annum)	30%	35%	50%
Number of people trained (per annum)	1 800	30 000	50 000
Increase in the portfolio of projects for consulting services	100%	180%	200%

Source: Adapted from Tiya (2008:6)

From Table 4.2 it is clear that the accumulative investment value target in the 2007/8 financial year was R28 billion, in the 2010/11 it was projected to be R30 billion, and finally R50 billion in the 2013/14 financial year, thereby completing the five-year cycle. In the 2012/13 financial year the real accumulative investment value attracted into the IDZ was R48.675 billion. This is very close to the envisioned R50 billion in 2007/8. It is important to note that the investment value in 2012/13 includes both operational and non-operational investors. Table 4.3 highlights the main sectors that are contributors to the investment value of the CDC in the 2012/13 financial year.

TABLE 4.3:   ACCUMULATED INVESTMENT VALUE OF THE CDC BY SECTOR IN 2012/13

Sector	Value (billion)
Agro processing	R 0.238
Alternative Energy	R 2.2
Auto (Manufacturing and components)	R1.7
Business Processing Outsourcing	R 0.15
Chemicals	R 1.2
Logistics	R 0.227
Downstream metals (Iron and Steel)	R 41.2
Manufacturing	R 0.160
Renewable Energy	R 1.6
TOTAL OPERATIONAL & PIPELINE	R 48.675

Source: Adapted from Coega Development Corporation (2013a:28)

From Table 4.3 it is clear that the top five sectors present in the Coega IDZ are the following: downstream metals (iron and steel); alternative energy; automotive (manufacturing and components); and renewable energy and chemicals. According to Port Elizabeth Industry (2012) Port Elizabeth's automotive industry comprises major vehicle manufacturers such as Volkswagen South Africa and General Motors. These vehicle manufacturers have made a significant contribution to the local economy, as well as to South Africa at large.

The next section discusses the number of signed investors at the CDC which comprises the total investment value indicated in Table 4.3. The number of signed investors at the CDC represents the dependent variable in the hypothetical model.

4.5   DEPENDENT VARIABLE

The CDC had signed a total of 30 investors in the five-year period from 2008 to 2013. During the 2012/13 financial year there were eight signed investors, where the target was seven for the year. Figure 4.5 indicates the number of signed investors by the CDC from 2008 to 2013.

FIGURE 4.5:   NUMBER OF SIGNED INVESTORS
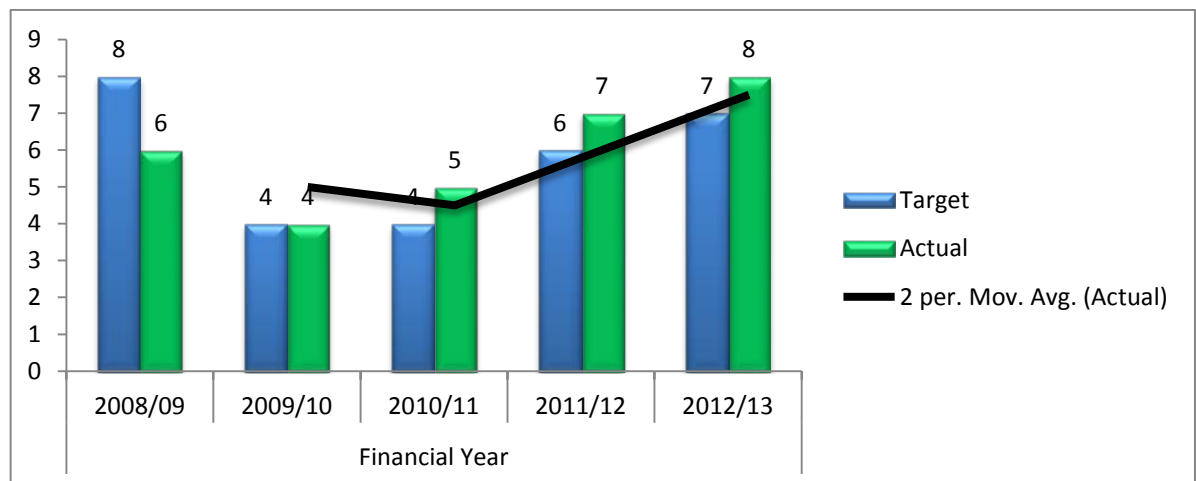
Source: Adapted from Coega Development Corporation (2013a:26)

From Figure 4.5 it is clear that the total number of investors that have been signed in the five-year period is 30, as compared to a target of 29. In general there has been an upward trend in the signing of investors by the CDC. Notably it was only during the 2008/9 financial year that the CDC underperformed in signing new

investors. The CDC either met or exceeded expectations from 2009 to 2013. Table 4.4 illustrates the number of investors currently (2013) operational or completing construction at the Coega IDZ.

TABLE 4.4:   CURRENT STATUS OF CDC INVESTORS

Status	Number	Investors
Operational	21	AP Moller (Holland-SA), Benteler (Germany), Bosun Bricks (USA-SA), Cape Concentrates (SA), Cerebos (SA), Coega Diary/Coega Cheese (SA), Dynamic Commodities (SA), Digistics (SA), Discovery Holdings Pty Ltd (SA), Electra Winds (Belgium), Famous Brands (SA), Faurecia (France), Grupo Antolin (Spain), General Motors Parts and Accessories Distribution Centre (USA-SA), Inergy (France), Kuehne & Nagel (Switzerland), Hella (Germany), MSC (Switzerland-SA), UTI Couriers (SA), Rehau (Germany), PE Cold Storage (SA) and Universal Winds (Sweden)
Investors under construction	4	Agni Steel (India), DCD Wind Towers (SA), First Automobile Works (FAW) (China) and Rehau Expansion (Germany)
Investors due to start construction	1	Air Products (SA) [Site preparation commenced in July 2013]
Investors completing an Environmental Impact Assessment	6	AfriSam (SA), AMG (China-SA), Casa Steel (SA), OSHO Cement (India-SA), First in Spec Biofuels (SA) and Phyto-Energy (SA)

Source: Adapted from Coega Development Corporation (2013b:28)

From Table 4.4 it is clear that there were 21 investors that were in the post-investment phase or operational during the 2012/13 financial year. Investors due to start or under construction in the IDZ equalled five, while investors in the pre-investment phase totalled six. Table 4.4 indicates that in 2014 the number of investors operating in the Coega IDZ would have increased.

Table 4.5 provides a summary of the new investors that were signed by the CDC during the 2012/13 financial year. The table also summarises the attracted investment in the Coega IDZ for the 2012/13 financial year.

TABLE 4.5: NEW INVESTORS SIGNED DURING 2012/13

Investor	Type of Investment	Sector	Private Sector Investment	Public Sector Investment	Total Project Value
AfriSam	Cement Plant	Manufacturing	R 634 million		R 634 million
Air Products	Air separation Unit (Cryogenic Gases)	Chemicals	R 300 million		R 300 million
Famous Brands	Cold Storage & Warehousing Facility	Logistics	R 5 million	R 20 million	R 25 million
Golden Era	Packaging & Stationery Manufacturing	Manufacturing	R 160 million		R 160 million
Grindrod	3rd & 4th Party Logistics	Logistics	R 12 million		R 12 million
Humeat	Cold Storage & Warehousing Facility	Logistics	R 5 million	R 10 million	R 15 million
Royal Energy International	Fuel decanting & blending Facility	Chemicals	R 75 million		R 75 million
Vector Logistics	Cold Storage & Warehousing Facility	Logistics	R 30 million	R 141 million	R 171 million
8 New Investors	**Total**		**R 1.221 billion**	**R 171 million**	**R 1.392 billion**

Source: Adapted from Coega Development Corporation (2013a:27)

From Table 4.5 it appears that the most significant investment during the 2012/13 financial year was Afri-Sam, which is in the manufacturing sector and has a total value of R634 million. The second largest investment is R300 million by Air Products, operating in the chemicals sector, followed by Golden Era, a specialised packaging and stationery manufacturing with an investment value of R160 million. The target for the 2012/13 financial year was R1.7 billion and the actual investment value was R1.392 billion. The IDZ investment promotion efforts resulted in the CDC not reaching the investment value target for the 2012/13 financial year, but the number of signed investors was exceeded by one.

4.6   SUMMARY

This chapter discussed the four chosen independent variables contained in the hypothetical model namely property, infrastructure, economic aspects for exports, and incentives including the intervening (IPS) and dependent variable (number of signed investors). Property was defined as the terms investors would get when negotiating for land and/or building. Infrastructure was defined as the physical facilities of the Zone/Park. The economic aspects for exports were described as the macro and micro economic aspects that make up a conducive exporting environment. Lastly, incentives were referred to as being those administered by government. The section also focused on determinants of FDI in the CDC context, and highlighted why these determinants were important for CDC. The formation of the five-year CDC IPS as well as the roles and functions of supporting business units and internal structures were discussed. It was stated that the accumulated investment value of the CDC by sector totalled R 48.675 billion from 2008 to 2013. This included operational and non-operational signed investors. Finally, the current state of the number of new investors signed during the 2012/13 financial year by the CDC was outlined.

The following chapter explores the research design, research methodology, methods of data sourcing, and data analysis utilised in the study.

CHAPTER 5
RESEARCH DESIGN AND METHODOLOGY

5.1   INTRODUCTION

Chapter 3 of the study investigated the characteristics of the various types of FDI, namely market-seeking, resource-seeking, efficiency-seeking and asset-seeking investments. Chapter 4 identified four variables, namely property, infrastructure, economic aspects for exports, and incentives, as being important to the CDC IPS and attracting FDI, thus increasing the number of signed investors to the region. A hypothetical model was introduced, and from the literature and CDC documentation it was clear that determinants of FDI are significant for attracting FDI. It was also clear that an IPS without these determinants is unsustainable.

As mentioned in Chapter 1, one of the secondary objectives of the study is to empirically investigate the extent to which FDI will possibly influence the IPS, and how it can be used to influence the number of signed investors by the CDC.

In order to conduct the study, it is necessary to identify and discuss the research paradigm, research design, research methodologies, population, sample, measuring instrument, data collection, and analysis. The validity, reliability, ethical considerations, data collection and analysis techniques employed in the study will be considered.

5.2   RESEARCH PARADIGM

When a researcher wants to investigate a topic, he/she must choose between two main types of research paradigms, namely a quantitative (positivistic) approach or a qualitative (phenomenological) approach (Collis & Hussey, 2003:13). According to Zikmund (2003:111), the quantitative approach is largely descriptive in nature and provides conclusive empirical findings. The quantitative approach focuses on the facts and causes of social phenomena, with little regard to the subjective state (Hussey & Hussey, 1997:52). Strauss and Corbin (1987:12) confirm this by stating that a positivistic or quantitative approach attempts to measure a phenomenon with precision.

The qualitative approach essentially involves a researcher's interest in the event that is going to be studied, and the gathering of specific and relevant data that will provide a detailed description of certain events, situations and interaction between certain people and things (Cooper & Schindler, 2006:198). A number of researchers prefer to use a qualitative approach as it is more subjective and exploratory in nature. It also allows the researcher to gain an understanding of certain social activities (Collis & Hussey, 2003:13). Hussey and Hussey (1997:12) emphasise that some researchers avoid the quantitative approach because they are not confident with statistics, and perceive the qualitative approach to be easier. In general, it is more difficult to begin an overall design of a quantitative study than a qualitative study. The analysis and write-up of a qualitative study are more difficult than a quantitative study. Table 5.1 highlights the alternative terms that can be used when referring to the two research paradigms.

TABLE 5.1:   ALTERNATIVE TERMS FOR THE TWO MAIN RESEARCH PARADIGMS

Positivistic paradigm	Phenomenological paradigm
Quantitative	Qualitative
Objectivistic	Subjectivist
Scientific	Humanistic
Experimentalist	Interpretive

Source: Adapted from Collis and Hussey (2003:47)

The quantitative approach is scientific in nature and produces results which are objective. The researcher uses a large sample and remains impartial and separate from the research objective. The analysis procedure uses statistics, tables and charts. In contrast the qualitative approach produces results that can be subjective and thus be interpreted in many ways. The researcher uses a small sample and tends to be immersed in the research objective. The analysis procedure includes generalisations from findings and organising data to present a rational picture (Collis & Hussey, 2003:47; Struwig & Stead, 2001:4-6).

Table 5.2 highlights the main features of the two research paradigms.

TABLE 5.2:   THE MAIN FEATURES OF THE TWO RESEARCH PARADIGMS

Positivistic paradigm	Phenomenological paradigm
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

Source: Adapted from Hussey and Hussey (1997:54)

From Table 5.2 it is clear that the quantitative approach focuses on testing hypotheses using specific and precise data, thereafter generalising from the sample to the population. The quantitative approach is most suitable for this study as the nature of the empirical data is specific, precise and measurable. In contrast to the quantitative approach, the qualitative approach tends to be more concerned with generating theories from rich and subjective data. The location of the qualitative study is in a specific context, while the reliability of the results is low, and the validity of the results is high.

After the research paradigm has been chosen, the focus turns to the research design and research methods employed in the study.

5.3   RESEARCH METHODS

According to Zikmund (2003:65), the research design of a project is a master plan specifying the methods and procedures for collecting and analysing information. The two types of data that exist are primary data and secondary data. According to Zikmund (2003:63), secondary or historical data are data previously collected and assembled for some project other than the one on hand. Secondary data for this study includes conference proceedings, academic textbooks, online databases, journals, reports, websites and CDC-related documentation. The purpose of the in-depth analysis of the secondary data is to determine the aspects

that influence FDI, the variables influencing IPS, and ultimately the signing of investors. Secondary data is also useful in developing the research instrument (questionnaire). Primary data is data gathered and assembled specifically for the project at hand. Primary data does not exist until it is generated by a research process. It is data generated from an original source such as experiments, surveys, interviews or focus groups (Collis & Hussey, 2014:343; Crowther & Lancaster, 2009:74). In this study, the primary data was in the form of data collected from the respondents using self-administered questionnaires. The primary data collected related to the determinants of FDI, the IPS and characteristics of signed investors by the CDC.

The following section introduces the data sourcing of the study.

5.4   DATA SOURCING

In this section, aspects concerning the primary data collection in this study will be discussed. Reference will be made to the population and sample, measuring instrument, ethical considerations, administration of the measuring instrument, sample size and response rate.

5.4.1   POPULATION AND SAMPLE

A target population is the entire group of objects or elements relevant to the research project. The group is relevant because it possesses the information the research project is designed to obtain (Hair, Money, Samouel & Page, 2007:173). Collis and Hussey (2003:56) define a population as any precise set of people or of items which is under review. In this study the population consisted of all signed investors at the South African IDZs, namely, Coega IDZ, East London IDZ, Richards Bay IDZ, Saldanha Bay IDZ and Gauteng IDZ.

According to Zikmund (2003:369), sampling is the process of using a small number of items or parts of a larger population to make conclusions about the whole population. A sample consists of the members of a population, and a sample frame is a list of the population from which all the sampling units are drawn (Collis & Hussey, 2003:155; Hussey & Hussey, 1997:144). Blumberg *et al.,* (2005:210) describe a sampling frame as a list of elements from which the sample

is drawn. The sampling frame for the study was the list of all the operational and non-operational investors signed by the CDC as at June 2014. The sampling process involves five different steps, namely:

- defining the target population;
- choosing the sampling frame;
- selecting the sampling method;
- determining the sample size; and
- implementing the sampling plan (Hair *et al.*, 2007:171).

For this study, the sample consisted of five respondents for each of the 30 signed investors at the CDC as at June 2014. There are mainly two types of sampling methods, namely probability sampling and non-probability sampling. Table 5.3 illustrates the types of sampling methods a researcher could use.

TABLE 5.3:   DIFFERENT TYPES OF SAMPLING METHODS

Probability sampling	Non-probability sampling
Random sampling	Convenience sampling
Systematic sampling	Snowball sampling
Stratified sampling	Quota sampling
Proportional sampling	Judgemental sampling
Disproportional sampling	
Cluster sampling	
Multi area sampling	

Source: Adapted from Gill and Johnson (1997:79, 82); Zikmund (2003:380-390)

From Table 5.3 it is clear that probability sampling techniques consist of random sampling, systematic sampling, stratified sampling, proportional and disproportional sampling, cluster sampling and multi area sampling. Non-probability sampling techniques consist of convenience sampling, snowball sampling, quota sampling and judgemental sampling. Non-probability sampling was used to select the CDC sample, and since the sample frame was small, all the firms listed in the sample frame were included in the sample. Probability sampling is a sampling technique in which every member of the population has a known,

non-zero probability of selection. Struwig and Stead (2013:118) concur that in probability sampling every element in the population has a known non-zero probability of being included in the sample. Non-probability sampling is when all units of the sample are selected on a basis of personal judgement or convenience (Zikmund, 2003:70; 379-380). According to Blumberg *et al.* (2005:222) convenience samples are considered to be non-probability samples and are unrestricted. Convenience sampling involves researchers choosing the most economical and cheapest samples. Convenience sampling involves choosing a sample on the basis of availability; in most cases the sample is accessible and cooperative (Struwig & Stead, 2013:117). According to Zikmund (2003:382), judgemental sampling is when an experienced individual selects a sample based on some characteristic. Blumberg *et al.* (2005:222) confirm this by stating that judgemental sampling occurs when a researcher selects sample members to conform to some criterion. A sample is selected on the basis of expert judgement (Struwig & Stead, 2013:117). For the purpose of this study, convenience sampling and judgemental sampling were implemented as all signed investors had the common characteristic of being located at the Coega IDZ. The sample consisted of 30 signed firms at the CDC, which was the total number of investors with signed lease agreements. A minimum of five respondents from the 30 firms signed at the CDC were selected. The selection parameters for the sample were:

- the firm must have signed a term sheet with CDC ;
- the firm must have signed a lease agreement with CDC;
- the firm must have been interacting with the CDC in the past 24 months for various operational issues; and
- if not already located, the firm must have intentions to be operational in the next four to five years.

The quantitative approach often uses large samples so that results can be taken as true for the whole population since the sample is representative. In contrast, the qualitative approach aims to get depth, therefore a sample of one can be sufficient. The sample size represents the main interest of the study and is a subset of the population (Collis & Hussey, 2003:20). Sample size becomes very important especially when a researcher is measuring correlation. A correlation can

be statistically significant given a large enough sample size. For example a correlation of 0.81 is needed to be statistically significant at a 5% level with a sample size of 6. However a sample size of 100 requires only a correlation of 0.20 to be statistically significant at a 5% level (Burns & Burns, 2008:246). In this study, correlation would be measured between the determinants of FDI (independent variables), IPS (intervening variable) and the number of signed investors by the CDC (dependent variable).

According to Bartlett, Kotrlik and Higgins (2001:48), a ratio of 5:1 should be used for the observation-to-independent variable. In this study there are six variables with a minimum of five items pertaining to each variable. Therefore six variables multiplied by five items, multiplied by five respondents, equals a minimum sample size of 150. The number of questionnaires returned or completed divided by the number total number of questionnaires distributed is defined as the response rate (Zikmund, 2003:215). In this study a maximum of 210 questionnaires were distributed to 30 signed investors by the CDC in order to reach the required minimum sample size of 150.

The following section will discuss the measuring instrument and the data sourcing methods used in the study.

5.4.2   THE MEASURING INSTRUMENT

This study made use of a questionnaire as a data collection instrument. According to Hussey and Hussey (1997:161), questionnaires are associated with the quantitative and qualitative approaches. The main purpose of a questionnaire is to elicit reliable responses from the chosen sample. In the quantitative approach, the questionnaires can be used for large-scale surveys. A quantitative approach suggests that closed-ended questions be used, while the qualitative approach leans towards open-ended questions. More importantly, in a quantitative study or analytical survey there needs to be an allowance in the questionnaire for eliciting data on all the significant variables. This enables statistical analysis of the relationship between the independent and dependent variables, as well as the statistical control over extraneous variables, to allow the hypotheses to be tested (Gill & Johnson, 1997:89). For the purpose of this study provision was made in

the questionnaire to allow for a statistical analysis between the independent variables (determinants of FDI), intervening variable (IPS) and the dependent variable (number of signed investors).

The primary language of the questionnaire was English. Each variable was identified in the hypothetical model and was tested in the questionnaire. Statements were developed based on the literature discussed in Chapters 2 and 3. The measuring instrument covered and measured the independent, intervening and dependent variables of the study. The questionnaire (see Annexure A) consisted of two sections. Section A contained questions aimed at obtaining certain biographic information about the investors such as the industry they operated in, country of origin, foreign or domestic company, and number of years operating in the IDZ. Section B explored the reasons for the investors for locating in the Coega IDZ. The reasons were categorised into four categories, namely infrastructure, economic aspects for exports, property and incentives. Section B also explored the CDC five-year IPS's effectiveness in terms of investment attraction, generation and retention. The section also evaluated the perception of the 30 signed firms of the efforts by the investment promotion practitioners, and investigated the type of FDI present in the IDZ.

A five-point Likert type scale was utilised in the questionnaire. The Likert type scale consists of five attitudinal parameters ranging from 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree to 5 = strongly disagree. The questionnaire asked each respondent to indicate their level of agreement with each statement by marking the suitable number on the Likert type scale. Riley, Wood, Clarke, Wilkie and Szivas (2000:121) describe a Likert scale as a constructed scale designed to recognise independent attitudes in an individual but exist in a coherent whole. The aim of the scale is to find a batch of attitudes and then isolate one which is of interest in the research. Once the research instrument has been constructed, the researcher must collect data for analysis. Having constructed a questionnaire which is in line with the research objectives, the following step is to distribute copies of the questionnaire to the sample of respondents (Babbie, 1973:159).

As previously mentioned, for the purpose of this study data was collected through

a self-administered questionnaire from a sample of five employees or more of 30 firms who signed lease agreements with CDC. The resultant data was subjected to statistical analysis. The questionnaire was circulated to a convenient and judgemental sample of investors during a quarterly investor breakfast held at CDC. The quarterly breakfast is compulsory for the investors located in the IDZ as it forms part of the terms and conditions of locating in the IDZ. The quarterly breakfast occurs at the end of every quarter of the CDC financial year. A brief presentation highlighting the problem statement, the purpose of the study and the research objectives was presented in the form of a PowerPoint presentation on the 24th of March 2014. The respondents were informed of the reasons why they were chosen as a sample. They were also informed of the date when the questionnaires would be distributed. The questionnaires were distributed to investors that were willing to participate by formal appointments, email, and personal delivery. The process of collecting primary data were finalised by end of August 2014.

The collected data was statistically analysed using computer programmes such as Microsoft Excel and Statistica Version 12.

Research ethics approval is very important for the researcher to protect the rights of the respondents and the researcher. The next section discusses the ethical considerations in this study.

5.4.3   ETHICAL CONSIDERATIONS

Research ethics approval is vital when conducting research in a private or public firm. Gill and Johnson (1997:93, 94) identify the reasons why the ethics approval process is important. The reasons are the following:

- The results may lead to decisions that may affect respondents, therefore interested parties may want to be consulted about the purpose of the survey and the manner it will be conducted.
- The choice of questions may have to be governed by organisational considerations.
- Opportunities should be provided to respondents to have their say, which may be an important consideration in the survey design.

In the context of this study, the primary objective of the study was to investigate whether the various determinants of FDI influence the IPS used by the CDC and how these determinants could be used in the IPS to increase the number of signed investors. The questionnaire was administered to 30 investor firms attending the quarterly breakfast held by the CDC Investor Services Section. A pro forma ethics clearance form was submitted to the Nelson Mandela Metropolitan University Ethics Committee. Prior to participation in the study, the researcher explained the reason for the study to the respondents. The respondents were informed that the completion of the questionnaires was voluntary, anonymous and the respondents could withdraw from participation at any point in time. All information was also kept confidential.

The following section explains how the missing data in the collected surveys was dealt with.

5.4.4   MISSING DATA

Missing data can be defined as statements in the questionnaire that were not answered by respondents. Missing data was restored by the mean-substitution approach (Zikmund *et al.,* 2010:466-467). When the questionnaires were received, each questionnaire was inspected for missing data. Hair *et al.* (2007:305) explain that missing data arises from data collection or data entry. The effects of missing data can affect the validity of the results and therefore must be identified and resolved. The researcher must also identify whether the missing data is random or systematic. A random error occurs when the researcher incorrectly draws the sample, for example the researcher draws a sample that is not representative of the population. A systematic error results from the execution of the research design. This could be a respondent error where a respondent gives no response or is biased when responding. Alternatively the researcher could have made an administrative error during the execution of the research project (Zikmund, 2003:176-177).

5.5   DATA ANALYSIS

The collected data was analysed using computer programmes such as Excel and Statistica version 12. Descriptive statistics were first calculated from the data

including the mean and the standard deviation. Face validity was ensured by using experts in the field of management. The measuring instrument was piloted to one of the investors signed by the CDC to ensure content validity. Based on the results of the pilot study, items in the questionnaire were adapted to ensure that the respondents interpret the statements correctly. Secondly the validity of the measuring instrument was tested by performing an Exploratory Factor Analysis (EFA) to consider construct validity. Thirdly the questionnaire's internal consistency and reliability were measured using Cronbach's alpha correlation coefficients. Fourthly Pearson product moment correlation coefficients were calculated and the data was analysed to measure the strength of the association between the dependent, intervening and independent variables. Multiple and simple regression analysis were used to predict the value of one variable on the basis of other variables. Any linear relationships that were positive or negative, strong or medium were identified and analysed. Finally t-tests and Cohen's d calculations were also undertaken to identify and observe whether the two mean values of a population differed and if there was a practical significance (Collis & Hussey, 2009:262).

5.5.1   DESCRIPTIVE STATISTICS OF THE BIOGRAPHICAL DATA

In order for the researcher to understand the data calculated from the measuring instrument, the data needed to be analysed. Collis and Hussey (2003:195) state that the body of methods and theory that is applied to quantitative data when making decisions is called statistics. According to Hair *et al.* (2007:154) descriptive research is designed to obtain data that describes the characteristics of the topic of interest in the research. Descriptive data statistics are also useful not only for describing data but also summarising and presenting data in tables, charts, and other diagrammatic flows (Collis & Hussey, 2003:198). In this study descriptive statistics that were utilised include numerical techniques such as the mean and standard deviation. Descriptive statistics consists of measurements of central tendencies and measurements of dispersion.

The measures of central tendencies include the mean, median and mode. The mean can be described as the arithmetic average and is a very common measure of central tendency. The median is the mid-point of a distribution. The mode is described as the value that occurs most often (Zikmund, 2003:406). Measures of

dispersion consist of the range, variance and standard deviation. The range measures the difference between the smallest and largest values in a set of numbers. The variance measures the sum of the squared differences between each value and the mean, divided by a slightly adjusted sample size. The standard deviation is the most valuable index of spread or dispersion. The standard deviation is described as the quantitative index of a distribution's spread or variability. That is the square root of the variance (Bein & McCarthy, 2012:109-111; Zikmund *et al.*, 2010:418-420; Zikmund 2003:409). In the study descriptive statistics were used to describe the investors located in the Coega IDZ, and organise the biographical information of located investors.

5.5.2   VALIDITY OF THE MEASURING INSTRUMENT

Validity refers to whether a test or research instrument measures what it is intended to measure (Schultz & Shultz, 2002:101). Collis and Hussey (2003:58) similarly define validity as the extent that research findings accurately represent what is actually happening in day-to-day life. Further mention is given to two main forms of validity, namely, internal and external validity. The external validity of research findings is the ability of the data to be generalised across people, settings and times. Internal validity refers to the ability of a research instrument to measure what it is supposed to measure (Cooper & Schindler 2006:318). Research errors, such as errors in research procedures, poor sampling and inaccurate measurement, can undermine validity (Collis & Hussey, 2003:59). As indicated earlier, qualitative research might have low levels of reliability, but rates highly in terms of validity.

Validity can be determined using factor analysis, which is also known as the data reduction method. Factor analysis is a technique that is widely used not only as a data reduction technique, but also for the construction of measurement scales. There are two main types of factor analysis to consider, namely, exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). EFA is commonly used to explore the elements of a measurement instrument by multivariate data structures, whereas CFA is a statistical technique used to verify the factor structure of a set of observed variables (Jain & Raj, 2013:182).

EFA is described as a technique used to summarise the information from a large number of variables into smaller factors. EFA is most appropriate when the researcher has no expectations of the number or nature of the potential factors. This then gives room to the researcher to be able to investigate key aspects of the topic, and generate theory or a model from the underlining constructs characterised by a set of items. Factor loadings between 0.3 and 0.4 are the minimum requirements to be considered significant in a study (Hair *et al.,* 1998:111; Zikmund *et al.,* 2010:593). In general, EFA combines variables with similar characteristics (Hair *et al.,* 2007:368). Burns and Burns (2008: 440) state that the aim of factor analysis is to identify the underlying factors that explain other related variables.

CFA is a theory-testing model in contrast to a theory-generating method like EFA. In CFA, the researcher begins with a hypothesis prior to the analysis. This hypothesis specifies which variables will be correlated with which factors, and which factors are correlated (Jain & Raj, 2013:183).

In this study the research instrument was tested for construct validity using EFA. The measuring instrument was also piloted to one of the investors located in the Coega IDZ to achieve content validity. Experts in the field of management were used to ensure face validity.

5.5.3   RELIABILITY OF THE MEASURING INSTRUMENT

Schultz and Schultz (2002:101) explain that reliability generally refers to consistency or stability of a response on a test. If a group of participants or respondents take a cognitive ability test one week and achieve an average score of 100, and repeat the test a week later and score an average score of 72, then it can be concluded that there is something wrong. The test therefore is described as being unreliable because of inconsistent results.

In the case of research, reliability is concerned with the actual findings of the research and relates to the credibility of findings. If the findings of the study can be repeated, the study is said to be reliable (Collis & Hussey, 2003:58). This reliability is difficult to assess in the case of phenomenological research, as the nature of the

data produced is qualitative. In addition, even if the research instrument is reliable, it would be difficult to discern the responses of participants because of the subjectivity of responses. As previously mentioned in Chapter 1, the questionnaire's reliability and internal consistency were measured using the Lee Cronbach's alpha correlation coefficient. Cronbach's alpha was developed by Lee Cronbach to provide a measure on internal constancy of a test or scale. It is expressed as a number between zero and one. The Cronbach's alpha coefficient checks the internal reliability of multiple-item scales. Each item is correlated with every other item that relates to the construct across the sample, and the average inter-item correlation is taken as the index of reliability (Collis & Hussey, 2014:275; Tavakol & Dennick, 2011:53). In this study, the acceptable criterion for the questionnaire using Cronbach's alpha was a minimum of 0.6 (Hair *et al.*, 2013:123).

5.5.4 PEARSON PRODUCT MOMENT CORRELATION COEFFICIENT

Burns and Burns (2008:15) define correlation as the degree of correspondence between variables. Hair *et al.* (2007:368) state that correlation examines an association between two metric variables. Zikmund *et al.* (2010:551) describe simple correlation as a statistical measure of association between two variables. Pearson product moment correlation coefficient is a statistical measure of the covariance between two variables. The coefficient analysis is a tool that can be used to test the relationships that might exist between the hypotheses that have been constructed by the researcher (Collis & Hussey, 2009:272; Zikmund *et al.,* 2010:559). In this study, correlation was used to identify possible correlations between the determinants of FDI (independent variables) and the CDC IPS (intervening) as well as well as between the CDC IPS and the number of signed investors (dependent variable).

The strength of the association is measured by the correlation coefficient referred to as Pearson product moment correlation coefficient. In order for the Pearson product moment correlation coefficient to be used, the nature of the data must be interval or ratio status and normally distributed. The data must be bivariate and the two sets must have similar variances. The coefficient is a parametric technique which gives a measure of the strength of association between two variables

(Hussey & Hussey, 1997:227). Table 5.4 indicates the different types of correlations that can be identified.

TABLE 5.4:   SIX MAIN TYPES OF CORRELATIONS

Correlations	Correlation Values
Perfect positive correlation	r = +1.00
High positive correlation	r = +0.80
Low positive correlation	r = +0.30
Perfect negative correlation	r = -1.00
Moderate negative correlation	r = - 0.60
No correlation	r = - 0.00

Source: Adapted from Zikmund (2003:553)

Table 5.4 clearly illustrates that the correlation coefficient can be either positive or negative. A perfect positive correlation has a value of +1, a high positive correlation is 0.80 and a low positive correlation is 0.30. Similarly a perfect negative correlation coefficient has a value of -1 and a moderate negative correlation is -0.60, and no correlation equals a value of 0. When the correlation coefficient has a zero value or close to zero value, the researcher can assume that the variables have no significant relationship (Zikmund, 2003:553-554).

Schultz and Schultz (2002:103) refer to generalisation (also called validity generalisation) as the idea that tests that are valid in one situation may also be valid in another situation. This can also apply to a survey being conducted in a firm, in that the findings may be similar to other firms with the same characteristics, and principles can thus be generalised. In the IDZ context, it could indicate that the results could generalised across the South African IDZs.

5.5.5   SIMPLE AND MULTIPLE REGRESSIONS

A simple regression is a statistical technique where it is assumed that one independent variable influences or predicts another dependent variable, and includes some level of random variation. A multiple regression is described as more complex linear regression and has more than one independent variable (Polonsky & Waller, 2011:189). This procedure is widely used as many public and private firms need to make predictions of prices, service or product demands, and

inflation rates and labour costs. The independent variables are the variables on which the dependent variable is based. Other than predicting the value or outcome, the mathematical technique can also determine whether a relationship exists between the independent variable and the dependent variable, by employing a correlation analysis (Keller & Warrack, 2003:603).

Hussey and Hussey (1997:237) describe two types of regression analysis models used to forecast future outcomes and events, namely, the additive model and the multiplicative model. The authors emphasise that, even though the additive model is easier to use, the multiplicative model is generally more realistic. Theoretical examples of the additive model and multiplicative model are provided in Table 5.5.

TABLE 5.5:   ADDITIVE AND MULTIPLICATIVE MODELS

Additive Model	Multiplicative Model
Y = A+B+C	Y = A x B x C
Where	
Y = dependent variable A = independent variable B = independent variable C = exogenous variable	

Source: Adapted from Hussey and Hussey (1997:237)

Table 5.5 illustrates the difference between the two types of regression analysis models, namely, the additive model and multiplicative model. The main difference between the two is that the additive model assumes that in order for a significant relationship to exist, the independent variables have to be added together and the exogenous variable must be taken into account to predict or influence the dependent variable. In contrast to the additive model, the multiplicative model assumes that a relationship will exist if the variables are multiplied together to influence the dependent variable.

Johnson, Whitaker and Johnson (2001:157) caution that researchers should make a clear distinction when applying regression techniques, and not confuse the two types of variables, that is the independent and dependent variable (responsive

variable). For the purpose of this study, a multiple regression analysis was concluded to determine whether significant relationships existed between the pre-determined determinants of FDI, namely, property, infrastructure, economic aspects for exports and incentives and the CDC IPS. A simple regression analysis was conducted to determine whether a relationship existed between the CDC IPS and the number of signed investors.

5.5.6 T-TESTS AND COHEN'S D

According to Hussey & Hussey (1997:235) a t-test is a parametric technique used for either independent or related samples. Independent samples are described as samples that are not related. Conversely, related samples are samples which have been matched in a particular way according to some characteristic such as age, and are considered to be related. Zikmund (2003:524) agrees that a t-test is a technique used to test the hypothesis that the mean scores on interval-scaled variable are significantly different for two independent samples or groups. Lastly Cohen's d values are calculated to assess the practical significance of mean values and measure the effect size between mean values of two or more groups of a population. Table 5.6 indicates the classification of Cohen's d values.

TABLE 5.6:   CLASSIFICATION OF COHEN'S D VALUES

Values	Practical Significance
$0.20 \leq 0.50$	Small
$0.50 \leq 0.80$	Medium
$0.80 >$	Large

Source: Adapted from Beins and McCarthy (2012:186)

From Table 5.6 it is clear that should the t-test report a Cohen's d value of between 0.20 and less than 0.50, the practical significance of the means tested is small. A medium practical significance lies between 0.50 and less than 0.80. Lastly a large practical significance of a reported Cohen's d value by a t-test is greater than 0.80.

5.6   SUMMARY

The aim of Chapter 5 was to discuss the research paradigm, design and methods followed in the study. Reference was made to the quantitative approach which was

used in the study. Secondary data was collected in the form of academic textbooks, reports, journals, websites and CDC-related documentation. A questionnaire was also discussed in detail and constructed to collect the primary data for the study. For reliability the acceptable criterion for the questionnaire using Cronbach's alpha was a minimum of 0.6. In the case of validity factor loadings between 0.3 and 0.4 were the minimum requirements to be considered significant for the study. Reference was also made to the population and sample. The population included all signed investors in the South African IDZs. The sample was defined as being all signed investors by the CDC. The sampling technique used was the convenient and judgemental sampling, as all the signed investors had a common characteristic of being located at the Coega IDZ. The data analysis methods were descriptive statistics, regression analysis, and Pearson product moment correlation coefficient. From the chapter it was evident that the researcher would have to obtain a minimum of 150 usable questionnaires from respondents for the analysis. The regression analysis and Pearson's correlation coefficient were critical for the study in order to establish whether there were any significant relationships from the hypothetical model. The t-tests investigated means of the groups sampled in the study.

In the following chapter the results of the empirical investigation will be provided.

CHAPTER 6
EMPIRICAL RESULTS

6.1 **INTRODUCTION**

Chapter 5 discussed the research design and paradigm followed in the study. Reference was made to the population and sample, the sample size and response rate, the measuring instrument, and research methods for data sourcing. Ethical considerations and how missing data would be handled were also considered. Finally the data analysis methods that were used in the study were discussed. The data analysis methods included descriptive statistics, exploratory factor analysis, Cronbach's alpha correlation coefficients, Pearson product moment correlation coefficients, simple and multiple regression analyses, and finally t-tests and Cohen's d values.

This chapter will present and discuss the empirical findings. Reference will be made to the biographical data of firms included in the sample, and the validity and reliability of the measuring instrument. Therafter the descriptive statistics of the variables and the Pearson product moment correlation coefficients will be presented. Simple and multiple regression analyses will be performed to determine if significant relationships exist between the predetermined independent and dependent variables. Finally t-tests and Cohen's d values will be calculated to determine if significant relationships exist between the selected biographical variables and the independent, the intervening variable, and dependent variables. The chapter will be concluded with a summary.

6.2 **BIOGRAPHICAL DATA**

Section A of the measuring instrument gathered biographical data of the signed investors by the CDC. The sample size consisted of a mimimum of five respondents from the 30 signed investors by the CDC. A total of 205 questionnaires were distribute to the respondents at the 30 signed investors (firms) located at the CDC. Of the 205 questionnaires, 187 questionnaires were usable, providing a response rate of 91%. The biographical data included the type of industry of the firm, whether the firm was a local or foreign firm, the main type of trade the firm engaged in, whether the firm was an exporter, importer or both, the

firm's country of origin, the long-term business objectives of the firm, the time period of being operational at the CDC and the expected time before being operational if not yet operational. Figure 6.1 presents the industry in which the firms participate.

FIGURE 6.1:   INDUSTRY PARTICIPATION OF THE FIRMS
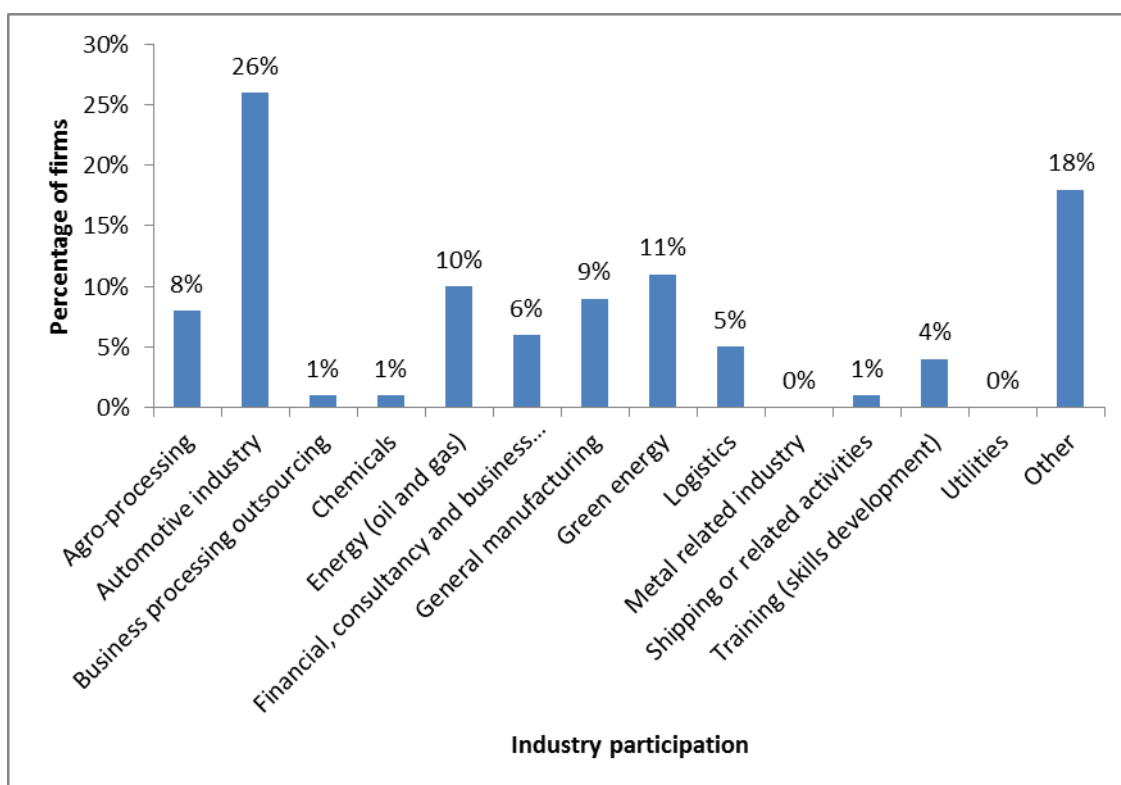
From Figure 6.1 it can be seen that the majority of the firms that participated in the study were from the automotive sector (26%), the green energy sector (11%) and the oil and gas energy sector (10%). It is also evident that participation by the general manufacturing sector (9%) and the agro processing sector (8%) was moderate. The minority of the sectors that are presented in the sample are from the financial, consultancy and business services sector (6%), logistics sector (5%), the training sector (4%), business processing outsourcing (1%), chemicals sector (1%), and the shipping or related activities sector (1%). The respondents that indicated "Other" are participating in property development, steel manufacturing and healthcare services and represents 18% of the sample.

Figure 6.2 illustrates the distribution of foreign and local investments of the firms

that participated in this study.

**FIGURE 6.2:   DISTRIBUTION   OF   LOCAL   AND   FOREIGN   FIRM
               PARTICIPATION IN THE STUDY**
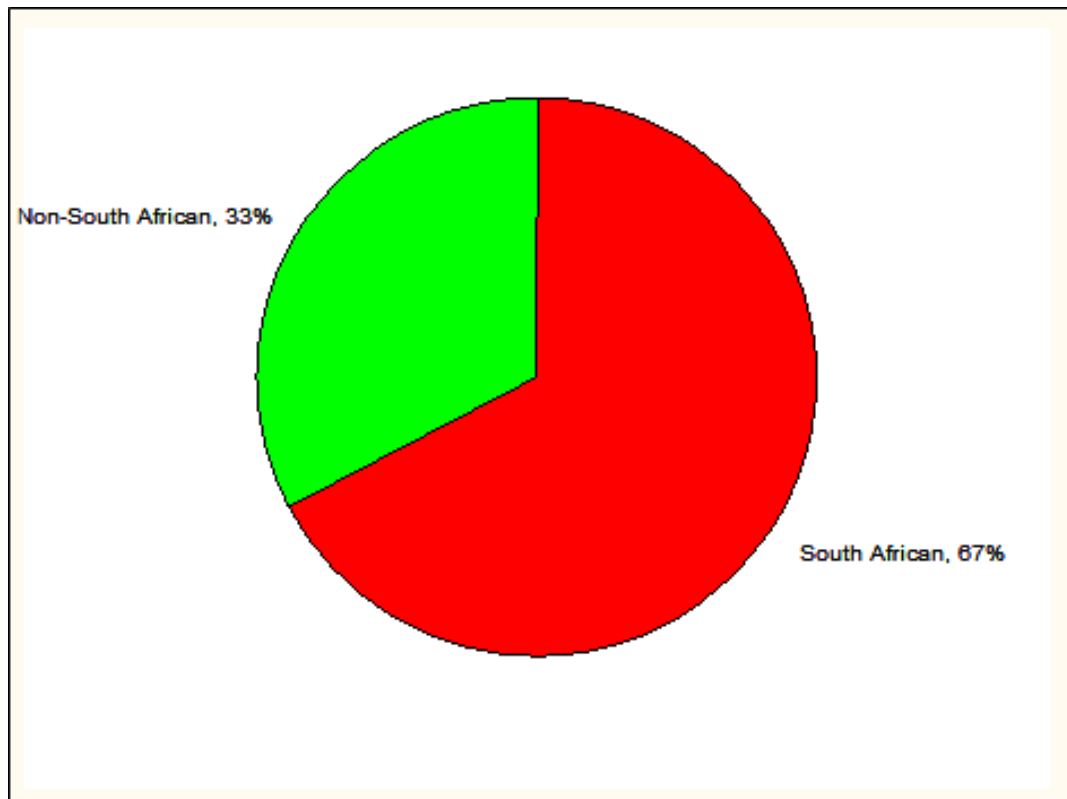
From Figure 6.2 it is clear that the majority of the firms that participated in the study were firms that had invested locally in the Coega IDZ. Domestic investment (67%) was considerably larger than foreign investment (33%). Currently the majority of the signed investors were local investors and are therefore regarded as domestic investors.

Figure 6.3 depicts the different countries of origin of the firms that participated in the study.

FIGURE 6.3:   COUNTRY OF ORIGIN OF THE FIRMS
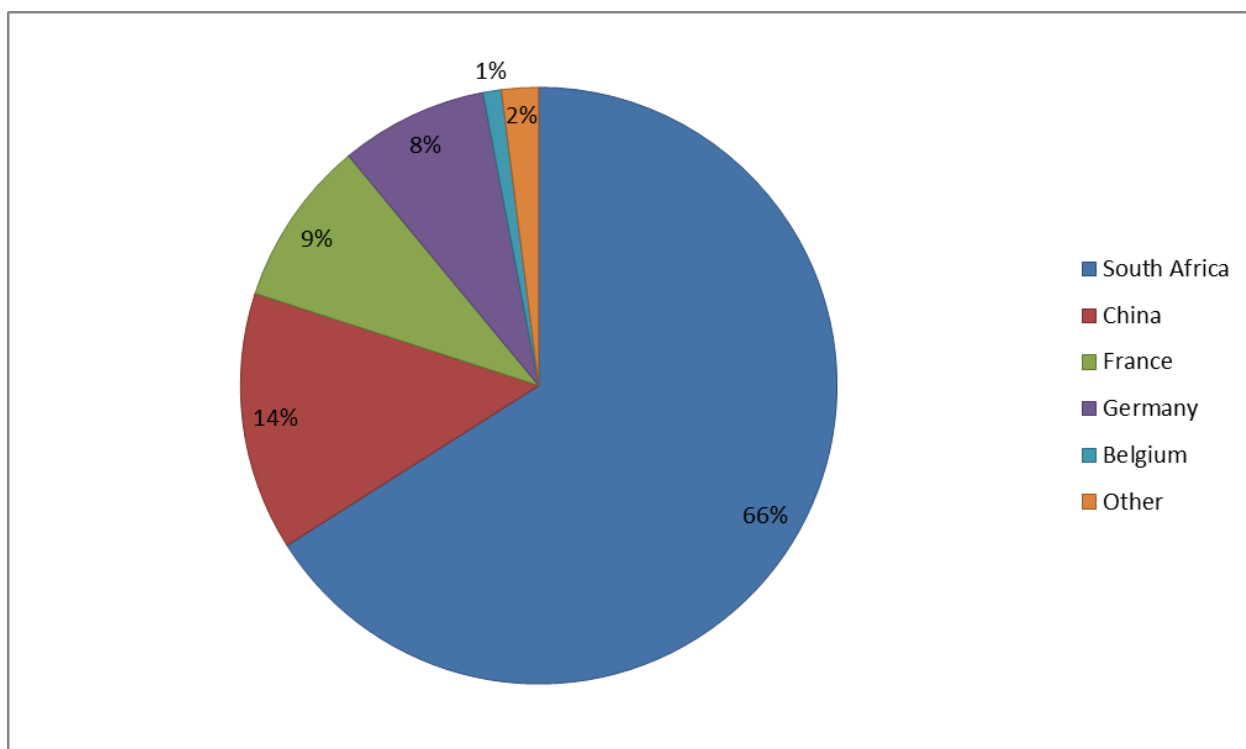
From Figure 6.3 it is clear that the majority of firms signed at the CDC were from South Africa (66%), followed by China (14%), France (9%) and Germany (8%) and Belgium (1%). Other countries that formed a small minority were from Spain, Italy and India (2%).

Figure 6.4 indicates the distribution between operational and non-operational firms that participated in the study.

FIGURE 6.4: OPERATIONAL AND NON-OPERATIONAL INVESTORS SIGNED AT THE CDC
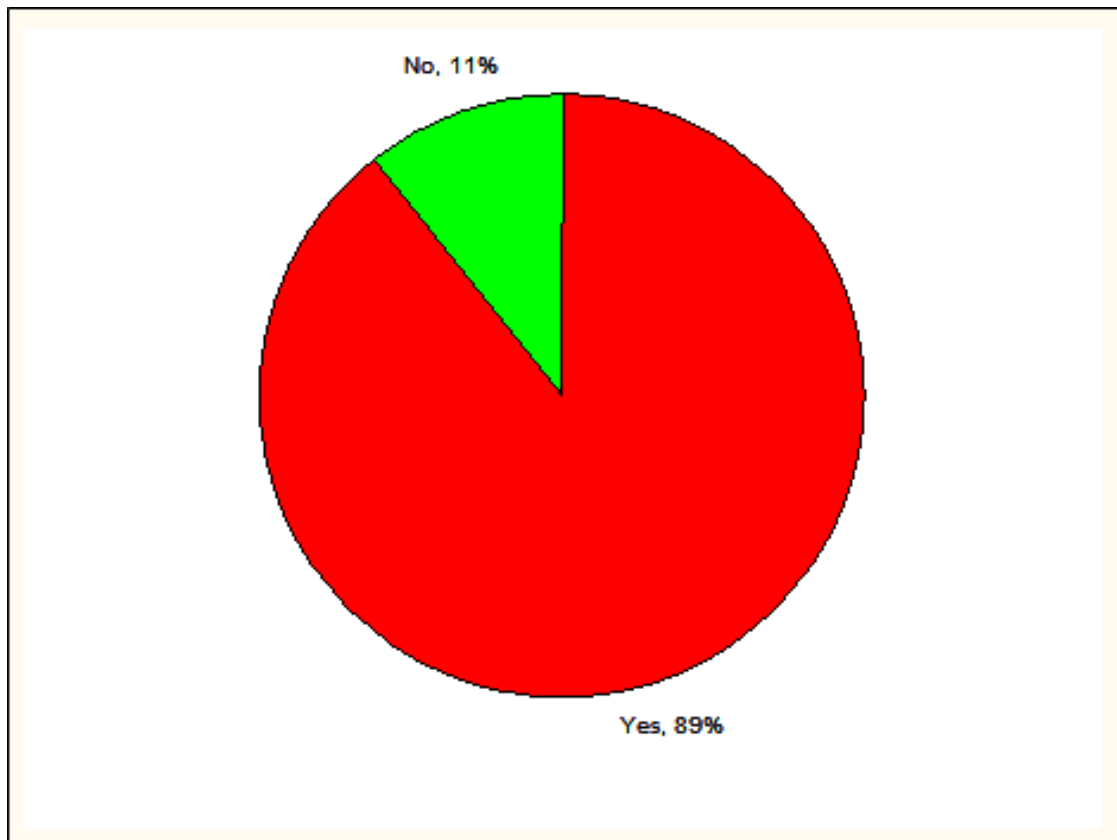
Figure 6.4 shows that the majority of the firms that participated in the study were operational (89%) while a few were non-operational firms (11%). Operational investors are investors in the operational phase which was post- construction implying that these firms are actively participating (for example manufacturing) in the South African business environment. Non-operational investors were investors currently undertaking construction or in the pre-construction phase and therefore not yet actively participating in the South African business environment.

Figure 6.5 further outlines the operational period of the firms which responded to be currently (2014) operational at the CDC.

FIGURE 6.5:   TIME PERIOD IN OPERATION AT THE CDC
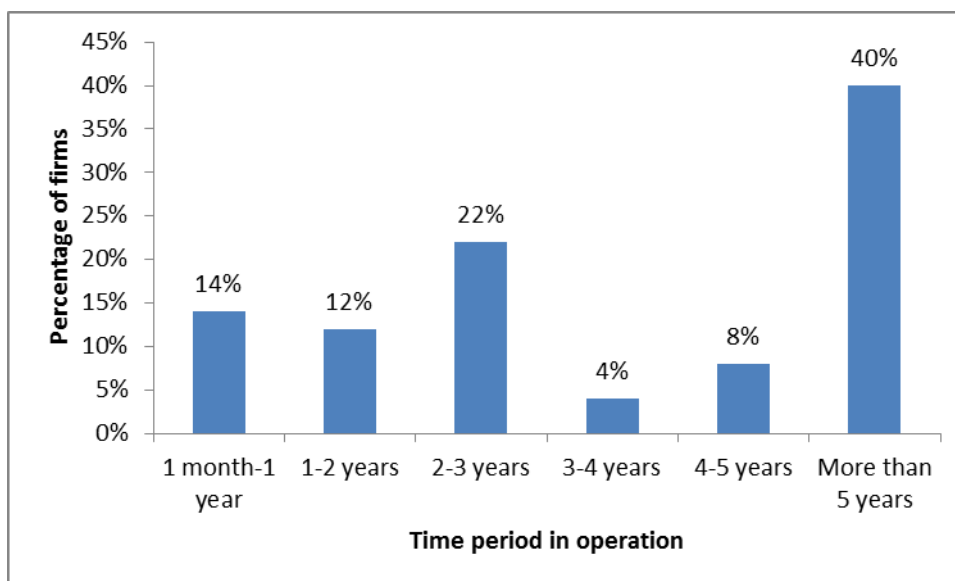
Figure 6.5 depicts that the majority of the firms had been operational for more than five years (40%) or between two and three years (22%) in the Coega IDZ. Approximately 14% of the firms were operational for less than one year but more than one month, while 12% of the firms had been operational between one and two years at the CDC. Only 8% of the firms had been in operation in the Coega IDZ between four and five years whereas the minority (4%) of the firms were in operation at the CDC between three and four years.

Figure 6.6 describes the main type of trade in which the firms that responded engaged.

FIGURE 6.6:   MAIN TYPE OF TRADE OF THE FIRMS
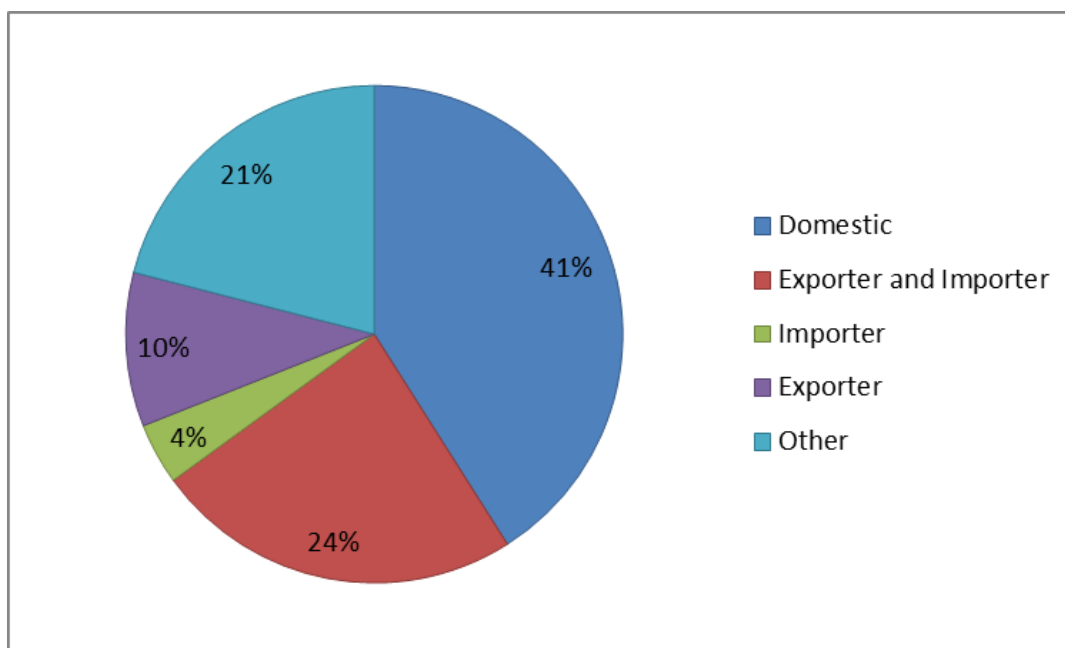
Evident from Figure 6.6 a large number of the firms (41%) were involved in domestic trade followed by the firms that were engaged both in importing and exporting activities (24%) and the firms involved in other combinations of trades (importing, exporting and domestic) (21%). Only a small number of the firms (10%) were involved in exporting activities, and the minority were involved in importing activities (4%).

Figure 6.7 illustrates the long-term business objectives of the firms included in the study.

FIGURE 6.7:   LONG-TERM BUSINESS OBJECTIVES OF THE FIRMS
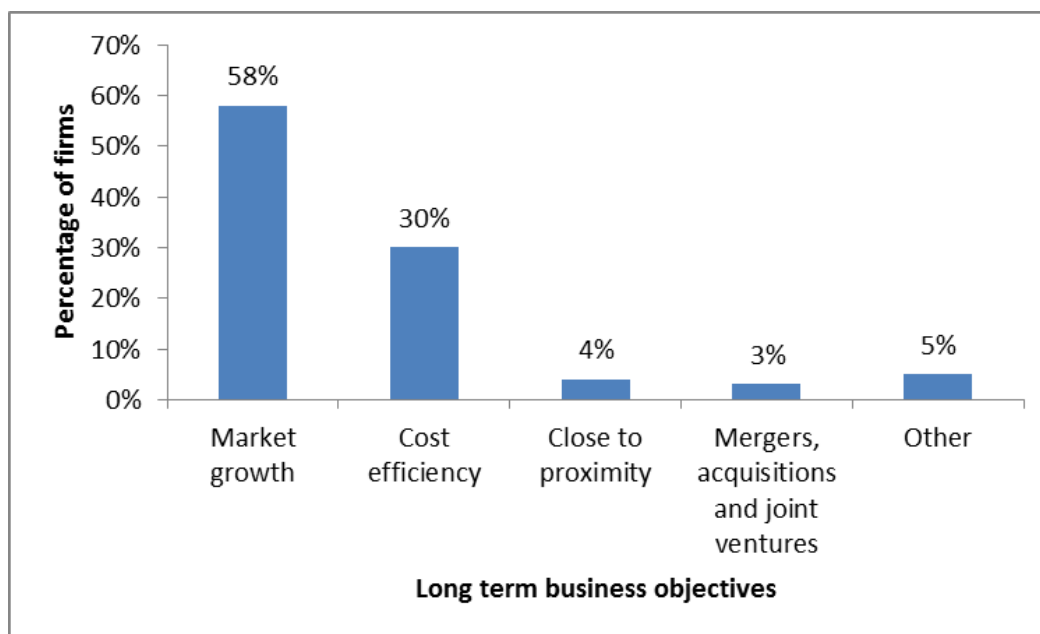
Figure 6.7 shows that 58% of the firms favoured market growth as their primary business objective, while 30% of the firms identified cost efficiency as their main business objective. A small number of the firms identified close proximity to a scarce resource (4%), mergers, acquisition and joint ventures (3%), and other objectives (5%) as their primary business objective. However, no indication of other objectives was provided by the responding firms.

The following section discusses the validity and reliability of the measuring instrument.

6.3   VALIDITY AND RELIABILITY OF THE MEASURING INSTRUMENT

Validity refers to whether a test or research instrument measures what it is intended to measure (Schultz & Shultz, 2002:101). Collis and Hussey (2003:58) define validity as the extent that research findings accurately represent what is actually happening in day-to-day life. Content validity was assured by conducting a pilot study with one of the signed investors in the Coega IDZ after face validity was determined by using academics and experts in the field of management. Construct validity was assured by performing EFAs. EFA is described as a technique used to summarise the information from a large number of variables into smaller factors (Hair *et al.,* 2007:368).   A minimum loading of 0.3 was accepted for each item

since the study is exploratory in nature. The items with factor loadings greater than 0.3 and that loaded on one factor only were considered significant. A number of items cross loaded and the items with the highest factor loading were retained on the basis of the study being exploratory by nature. Reliability generally refers to consistency or stability of a response on a test (Schultz & Schultz, 2002:101). Reliability of the measuring instrument will be determined by calculating the Cronbach's alpha correlation coefficient. According to Hair *et al.* (2013:123), even though the generally acceptable lower limit for Cronbach's alpha is 0.7, it may decrease to 0.6 for exploratory research. For the purpose of this study, a cut-off of 0.6 was used as this study is exploratory in nature.

6.4 RESULTS OF THE VALIDITY AND RELIABILITY ANALYSES FOR INDEPENDENT VARIABLES

In this section an overview of the results of the validity and reliability for the independent variables are provided. For this study, three separate EFAs were conducted, namely one for the independent variables, one for the intervening variable and one for the dependent variable. The following section presents the validity and reliability results for the independent variables.

6.4.1 FACTOR STRUCTURE OF THE INDEPENDENT VARIABLES

Table 6.1 indicates the seven factors that emerged from the first EFA that was performed on the independent variables. All factors should have at least three retained items as a factor with fewer than three items is generally regarded as weak and unstable (Costello & Osborne, 2005:5) .

TABLE 6.1:   FACTOR STRUCTURE – INDEPENDENT VARIABLES

	Factor						
	Location	Basic infra-structure	Incentives for land and buildings	Exporting environment	Physical infra-structure	Electricity	Incentives for exports
B4	**0.743**	-0.065	0.055	-0.111	-0.238	0.018	-0.060
B13	**0.669**	0.082	-0.072	**0.439**	-0.020	0.138	0.018
B22	**0.650**	-0.241	**-0.510**	0.065	0.170	-0.062	0.213
B15	**0.592**	-0.022	0.106	0.080	0.036	-0.197	-0.236
B5	**0.488**	-0.061	-0.109	0.038	**-0.356**	-0.126	-0.171
B18	**0.419**	0.161	-0.113	-0.220	0.185	-0.034	**0.366**
B19	**0.402**	**0.331**	0.000	-0.204	0.021	**-0.325**	**0.485**
B16	**0.384**	0.074	-0.118	0.212	0.003	-0.119	**-0.476**
B11	**0.346**	-0.201	0.013	0.276	-0.152	-0.193	0.163
B23	**0.307**	-0.006	**-0.760**	0.100	0.052	-0.167	-0.086
B24	-0.235	**0.723**	0-.151	0.055	-0.250	-0.211	0.075
B47	-0.052	**0.699**	-0.038	-0.026	0.019	0.000	-0.147
B25	-0.049	**0.669**	0.037	0.018	0.065	0.055	0.259
B26	0.287	**0.405**	0.078	-0.061	-0.211	0.016	0.066
B30	0.142	**0.395**	-0.120	0.042	0.154	**-0.420**	0.089
B36	0.190	-0.163	**0.607**	**0.301**	0.077	-0.282	0.026
B8	0.202	-0.173	**0.592**	0.205	0.030	-0.031	-0.083
B12	0.029	-0.018	-0.003	**0.603**	0.098	0.055	-0.027
B27	0.176	0.154	-0.084	**0.583**	-0.172	-0.076	-0.205
B49	0.037	-0.022	**0.316**	**0.541**	-0.060	-0.087	0.194
B32	-0.066	-0.092	0.066	**0.453**	-0.023	-0.132	0.016
B28	0.059	0.121	-0.126	**0.375**	**-0.784**	0.085	-0.129
B35	-0.111	0.177	0.012	**0.347**	-0.060	0.131	**0.343**
B40	-0.250	-0.239	**-0.363**	0.224	0.054	0.020	0.163
B37	0.125	0.108	0.274	-0.154	**-0.380**	0.002	0.108
B44	-0.049	-0.031	0.016	0.126	0.036	-0.024	**0.527**
B6	0.269	-0.005	**-0.651**	-0.048	-0.077	-0.044	-0.091
B46	0.076	0.067	-0.095	-0.129	**-0.396**	-0.114	**0.413**
B38	-0.035	**-0.307**	-0.267	-0.065	**-0.324**	-0.137	-0.030
B41	0.114	-0.023	**-0.339**	0.265	-0.232	-0.185	0.093
B39	0.184	0.095	-0.163	0.011	0.248	**-0.459**	0.075
B10	0.006	0.293	-0.091	0.250	-0.079	**-0.488**	-0.038
B1	-0.242	-0.106	0.171	-0.075	-0.101	**-0.873**	-0.038

From Table 6.1 it is evident that seven factors emerged from the EFA. The resulting factors were renamed *location*, *basic infrastructure*, *incentives for land and buildings*, *exporting environment*, *physical infrastructure*, *electricity* and *incentives for exports*. The resulting factors are discussed in the sections to follow.

6.4.1.1 Location

Table 6.2 depicts the validity and reliability of the factor *location*.

TABLE 6.2:   VALIDITY AND RELIABILITY OF THE FACTOR LOCATION

% Variance explained: 17.90%		Cronbach's alpha:0.78		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B4	The physical location of land received was suitable for the company's purpose.	0.743	0.58	0.74
B5	The employment incentive available influenced the decision to locate in the Coega IDZ/Park.	0.488	0.54	0.75
B11	Customers can be reached with ease from the IDZ/Park.	0.346	0.48	0.76
B13	The corporate income tax rate incentive of 15% instead of 28% influenced the decision to locate in the Coega IDZ/Park.	0.669	0.60	0.74
B15	The building allowance available influenced the decision to locate in the Coega IDZ/Park.	0.592	0.56	0.75
B18	IDZ/Park incentives should be administered provincially**.**	0.419	0.26	0.80
B22	The incentive package offered influenced the decision to locate in the Coega IDZ/Park.	0.650	0.61	0.74

Table 6.2 indicates that seven items loaded onto the new factor *location*. One item (B4) that was originally intended to measure property, loaded onto the factor *location*. Five items (B5, B13, B15, B18 and B22) that were originally intended to measure incentives also loaded onto the factor *location*. Furthermore one item (B11) that was originally intended to measure infrastructure also loaded onto the factor *location*. The reason that the items loaded onto this factor might be that incentivised land and buildings are very important to potential investors and for those incentives to be administered close by, is essential. When location is involved, investors want tangible incentives which can be quantified. These include

99-year-old lease agreements with minimal escalations and building allowances. However, three items, namely B16, B19 and B23 originally intended to measure infrastructure, incentives and property respectively, loaded onto more than one factor and were withdrawn from further analysis for the factor *location*. In Table 6.2 it can be observed that factor loadings ranging from 0.346 to 0.743 were reported. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.78. Satisfactory evidence of reliability for the factor *location* was thus provided. The factor *location* explained 17.90% of the variance in the data. Based on the items that loaded onto the factor *location*, *location* is defined as the suitable incentivised location of land and/or building from which the firm will operate.

6.4.1.2 Basic infrastructure

Table 6.3 depicts the validity and reliability of the factor *basic infrastructure*.

TABLE 6.3:   VALIDITY AND RELIABILITY OF THE FACTOR BASIC INFRASTRUCTURE

% Variance explained: 10.70%		Cronbach's alpha:0.73		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B24	The water quality in the IDZ/Park is satisfactory.	0.723	0.60	0.63
B25	The availability of water is adequate.	0.669	0.57	0.63
B26	The size of land received is adequate for the company's purpose.	0.405	0.42	0.72
B47	CDC buildings are well maintained.	0.699	0.54	0.66

Table 6.3 indicates that four items loaded onto the new factor *basic infrastructure*. One item (B26) that was originally intended to measure property loaded onto the factor *basic infrastructure*. Three items (B24, B25 and B47) originally intended to measure infrastructure loaded onto the factor *basic infrastructure*. The reason that the items loaded onto this factor might be that potential investors tend to value infrastructure that is serviced with good availability and quality of water, particularly for potential investors that utilise high volumes of water as a production input. The investors also require the buildings or structures they operate from to have planned maintenance schedules that support their production process. However,

one item (B30) originally intended to measure infrastructure loaded onto more than one factor and was removed from further analysis for the factor *basic infrastructure*. From Table 6.3 it can be observed that factor loadings ranging from 0.405 to 0.723 were reported. Sufficient evidence of validity for this construct is thus provided. The reported Cronbach's alpha coefficient was 0.73. Satisfactory evidence of reliability for the factor *basic infrastructure* is thus provided. The factor *basic infrastructure* explains 10.70% of the variance in the data. Based on the items that loaded onto the factor *basic infrastructure*, *basic infrastructure* is defined as the water connection supplying acceptable water quality levels that can reach land and buildings that are well maintained.

6.4.1.3 Incentives for land and buildings

Table 6.4 depicts the validity and reliability of the factor *incentives for land and buildings*.

TABLE 6.4:   VALIDITY AND RELIABILITY OF THE FACTOR INCENTIVES FOR LAND AND BUILDINGS

% Variance explained: 9.10%		Cronbach's alpha:0.65		
Item	Statement	Factor loading	Item total correl.	Cronbach's alpha after deletion
B6	The rental paid on land received is competitive.	-0.651	0.59	0.46
B23	Cost of acquiring the building (rental or construction cost) is competitive.	-0.760	0.67	0.38
B40	IDZ/Park incentives should be administered locally.	-0.363	0.16	0.74
B41	The site selection process at the CDC is satisfactory.	-0.339	0.38	0.63

Table 6.4 indicates that four items loaded onto the new factor *incentives for land and buildings*. Three items (B6, B23 and B41) that were originally intended to measure property loaded onto the factor *incentives for land and buildings*. One item (B40) originally intended to measure incentives loaded onto the factor *incentives for land and buildings*. The reason that the items loaded onto this factor might be that, even though the potential investors considered the CDC site selection process to be satisfactory, they considered the rental paid for land and the cost of acquiring buildings in the IDZ not to be competitive. To a large extent

investors require that these costs be subsidised by means of government incentive schemes such as building allowances and exemption from land reservation fees, but these must not be administered locally, but provincially or nationally. However, two items, namely B22 and B49, originally intended to measure incentives and economic aspects for exports respectively, loaded onto more than one factor and were removed from further analysis for the factor *incentives for land and buildings*. Although B8 and B36 loaded onto the factor *incentives for land and buildings*, it was disregarded from further analysis to ensure an acceptable reliability coefficient. From Table 6.4 it can be observed that factor loadings ranged -0.339 to -0.760. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.65. Satisfactory evidence of reliability for the factor *incentives for land and buildings* was thus provided. The factor *incentives for land and buildings* explained 9.10% of the variance in the data. Based on the items that loaded onto the factor *incentives for land and buildings, incentives for land and buildings* is defined as the CDC incentivised rent premium for acquiring the land and/or building selected during the site location process.

6.4.1.4 Exporting environment

Table 6.5 depicts the validity and reliability of the factor *exporting environment*.

TABLE 6.5: VALIDITY AND RELIABILITY OF THE FACTOR EXPORTING ENVIRONMENT

% Variance explained: 6.90%		Cronbach's alpha:0.61		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B12	The domestic exchange rate influences exporting.	0.603	0.45	0.51
B27	To export at a lower tariff than prescribed by SARS made the location of the company in the IDZ/Park more attractive.	0.583	0.41	0.53
B32	Suppliers can be reached with ease from the IDZ/Park.	0.453	0.34	0.57
B35	The price of water is competitive.	0.347	0.19	0.63
B49	The IDZ/Park fosters a conducive environment for exporting.	0.541	0.45	0.52

Table 6.5 indicates that five items loaded onto the new factor *exporting*

environment. Three items (B12, B27 and B49) that were originally intended to measure economic aspects for exports, loaded onto the factor *exporting environment*. Two items (B32 and B35) originally intended to measure infrastructure also loaded onto the factor *exporting environment*. The reason that the items loaded onto this factor might be that even though the Coega IDZ is considered to be an enabling environment for exporting, potential investors viewed the ease of reaching suppliers and the domestic exchange rate as factors that contributed to the merit of the *exporting environment*. Three items, namely B13, B28 and B36 originally intended to measure incentives, property and economic aspects for exports respectively, loaded onto more than one factor and were discarded from further analysis for the factor *exporting environment*. From Table 6.5 it can be observed that factor loadings ranged from 0.347 to 0.603. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.61. Satisfactory evidence of reliability for the factor *exporting environment* was also provided. The factor *exporting environment* explains 6.90% of the variance in the data. Based on the items that loaded onto the factor *exporting environment*, the definition of *exporting environment* is formulated as an environment that is conducive for exporting by providing easy access to suppliers and by providing lower export tariffs whilst offering competitive water prices.

6.4.1.5 Physical infrastructure

Table 6.6 depicts the validity and reliability of the factor *physical infrastructure*.

TABLE 6.6:   VALIDITY AND RELIABILITY OF THE FACTOR PHYSICAL INFRASTRUCTURE

%Variance explained: 45.84%			Cronbach's alpha:0.39		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B28	The site allocation process at the CDC is satisfactory.	-0.784	0.27	0.00
B37	The roads in the IDZ/Park are adequate.	0.488	0.27	0.42
B38	The site location and selection process administered by the Spatial Development Unit are satisfactory.	-0.324	0.16	0.39

Table 6.6 indicates that three items (B28, B37 and B38) loaded onto the new factor *physical infrastructure*. Although the factor *physical infrastructure* had more than three items that loaded together, the reliability of the factor was not acceptable. Therefore the factor *physical infrastructure* was disregarded from further analysis.

6.4.1.6 Electricity

Table 6.7 depicts the validity and reliability of the factor *electricity*.

TABLE 6.7:   VALIDITY AND RELIABILITY OF THE FACTOR ELECTRICITY

% Variance explained: 5.02%		Cronbach's alpha:0.67		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B1	The company has future plans to increase exports in the future.	-0.873	0.41	0.65
B10	The price of electricity is competitive.	-0.488	0.50	0.58
B30	The availability of electricity is adequate	-0.420	0.52	0.56
B39	The availability of customs-controlled area influenced the decision to locate in the Coega IDZ/Park.	-0.459	0.42	0.63

Table 6.7 indicates that four items loaded onto the new factor *electricity*. One item (B1) that was originally intended to measure economic aspects for exports loaded onto the factor *electricity*. Two items (B10 and B30) that were originally intended to measure infrastructure also loaded onto the factor *electricity*. The reason that the statements loaded onto this factor might be that if the supply of electricity is not adequate and the price of electricity is not competitive in the NMBM, potential investors will not consider exporting in the Coega IDZ even though the CDC might establish a CCA or be adjacent to a port to export. One item (B39) originally intended to measure incentives also loaded onto the factor *electricity*. From Table 6.7 it can be observed that factor loadings ranging from -0.420 to -0.873 were reported. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.67. Satisfactory evidence of reliability for the factor *electricity* was thus provided. The factor *electricity* explains 5.02% of the variance in the data. Based on the items loaded onto the factor *electricity*, the definition of *electricity* is formulated as the availability of electricity at competitive prices for investors who are exporting or who would like to export in the future.

6.4.1.7 Incentives for exports

Table 6.8 depicts the validity and reliability of the factor *incentives for exports*.

TABLE 6.8: **VALIDITY AND RELIABILITY OF THE FACTOR INCENTIVES FOR EXPORTS**

% Variance explained: 4.92%		Cronbach's alpha:0.57		
Item	Statement	Factor loading	Item total correl.	Cronbach's alpha after deletion
B19	The current incentives offered at the Coega IDZ/Park are adequate.	0.485	0.33	0.00
B44	The manufacturing industry is the main driver for exporting.	0.527	0.06	0.18
B46	The lobbying by the CDC to the Department of Trade and Industry (DTI) for incentives is adequate.	0.413	0.28	0.00

Table 6.8 indicates that three items loaded onto the new factor *incentives for exports*. Two items (B19 and B46) that were originally intended to measure incentives loaded onto the factor *incentives for exports*. One item (B44) that was originally intended to measure economic aspects for exports also loaded onto factor *incentives for exports*. The reason that the items loaded onto this factor might be that operational investors were aware of the bulk buying of water agreement between the NMBM and CDC and were realising the benefit of lower prices for water. This benefit of lower water prices could be particularly welcomed by exporting manufacturers in the Coega IDZ. Two items, namely B18 and B35 originally intended to measure incentive and infrastructure respectively loaded onto more than one factor and was discarded from further analysis for the factor *incentives for exports*. Although B16 loaded onto the factor *incentives for exports*, it was disregarded from further analysis to ensure an acceptable reliability coefficient. Evident from Table 6.8, the factor loadings for *incentives for exports* ranged from 0.413 to 0.527. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.57. Satisfactory evidence of reliability for the factor incentives for exports was thus provided. The factor *incentive for exports* explains 4.92% of the variance in the data. Based on the factors that loaded onto *incentives for exports*, *incentives for exports* refer to administered fiscal incentives relating to exports by government which are

implemented through national departments. These incentives are aimed primarily at the exporting manufacturing industry's input costs.

6.5 RESULTS OF THE VALIDITY AND RELIABILITY ANALYSES FOR THE INTERVENING AND DEPENDENT VARIABLES

A second EFA was conducted for the intervening and dependent variables. This section presents the validity and reliability results for the intervening (*CDC IPS*) and dependent variables.

6.5.1 INTERVENING VARIABLE – CDC IPS

Table 6.9 depicts the validity and reliability of the intervening variable *CDC IPS*.

TABLE 6.9: **VALIDITY AND RELIABILITY OF THE FACTOR CDC IPS**

% Variance explained: 26.31%		Cronbach's alpha:0.67		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B7	CDC provides investment information timeously.	0.389	0.33	0.64
B20	The type of investors in terms of industry e.g. cement plant, warehousing etc. have influenced the decision to locate in the Coega IDZ/Park.	0.376	0.24	0.67
B21	CDC has a clear unique selling proposition.	0.634	0.50	0.61
B31	CDC has an adequate investor outreach programme.	0.352	0.27	0.66
B34	The CDC investment promotion strategy has attracted a variety of industries to the Coega IDZ.	0.401	0.35	0.64
B42	The CDC Business Development team promotion efforts influence the final investment decision to locate in the IDZ/Park.	0.433	0.37	0.63
B45	The CDC Commercial team efforts influence the final investment decision to locate in the IDZ/Park.	0.370	0.30	0.65
B48	CDC promotion efforts influenced the decision to locate in the Coega IDZ.	0.495	0.41	0.63
B50	The CDC investment promotion strategy has attracted a variety of sectors to the Coega IDZ.	0.477	0.38	0.63

Table 6.9 indicates that nine statements (B7, B20, B21, B31, B34, B42, B45, B48 and B50) originally intended to measure *CDC IPS* loaded onto the factor *CDC IPS* as expected. The reason that the statements loaded onto this factor might be that operational and non-operational investors clearly understand the efforts around the *CDC IPS*, particularly the practical efforts that are evident from the annual investment promotion mission plans which are performed by the Global Markets section in the Business Development Unit and the Operations Business Unit. Efforts from the Business Development Unit include largely pre-investment activities such as presentations, exhibitions and visitations to potential investors. Efforts from the Operations Business Unit include post-investment activities such as negotiations and investment aftercare activities (facilities management of CDC buildings, security of staff and property within the IDZ and safety, health and environmental compliance support). From Table 6.9 it can be observed that factor loadings ranging from 0.352 to 0.634 were reported. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.67. Satisfactory evidence of reliability for the factor IPS was thus provided. The factor *CDC IPS* explains 26.31% of the variance in the data. Based on the factors that loaded onto *CDC IPS, IPS* refers to the collective efforts by the CDC to attract investment during the five-year period from 2009 to 2013.

6.5.2 DEPENDENT VARIABLE – NUMBER OF SIGNED INVESTORS

Table 6.10 depicts the validity and reliability of the factor *number of signed investors*.

TABLE 6.10:   VALIDITY AND RELIABILITY OF THE FACTOR NUMBER OF SIGNED INVESTORS

% Variance explained: 34.19%		Cronbach's alpha:0.73		
Item	**Statement**	**Factor loading**	**Item total correl.**	**Cronbach's alpha after deletion**
B3	The number of signed investors by the CDC has influenced the decision to locate in the Coega IDZ/Park.	0.565	0.49	0.69
B14	The expected benefits of locating in the IDZ/Park have been realised.	0.569	0.52	0.68
B29	I would recommend the CDC to any potential investor.	0.481	0.35	0.72
B33	The monetary value invested by the company reflects the confidence the company has in the IDZ/Park.	0.482	0.39	0.72
B43	CDC provides adequate post-investment services such as SHEQ, Security, Finance, Facilities Management, Investor Services etc.	0.594	0.45	0.70
B51	It is beneficial to locate in the IDZ/Park as compared to non-IDZ/Park locations.	0.677	0.60	0.65

Table 6.10 indicates that six statements (B3, B14, B29, B33, B43 and B51) originally intended to measure *number of signed investors* loaded onto the factor *number of signed investors*. The reason for the loadings is that the majority of the sample consists of operational investors (89%) therefore most of the investors would have experienced the benefits of locating in the Coega IDZ. These benefits included some of the value-added services delivered by the Operations Business Unit, such as the negotiations for expansions, the access control and responsiveness of the security staff, and the maintenance of the CDC buildings. Some of the different industries in the Coega IDZ could have also given operational investors benefits such as new markets and reliable suppliers. As a value-add, some of the operational investors could also have experienced a few of the pre-investment services offered by the Operational Business Unit for expansions such as business registrations, work permits, environmental impact assessments and recruitment of staff. From Table 6.9 it can be observed that factor loadings for the factor *number of signed investors* ranged from 0.481 to 0.677. Sufficient evidence of validity for this construct was thus provided. The reported Cronbach's alpha coefficient was 0.73. Satisfactory evidence of reliability

for the factor *number of signed investors* was thus provided. The factor *number of signed investors* explains 34.19% of the variance in the data. Based on the factors that loaded onto *number of signed investors, number of signed investors* refers to investors with signed lease agreements with CDC.

6.6 ADAPTED HYPOTHETICAL MODEL AND REFORMULATED HYPOTHESES

Given the problem statement in Chapter 1, five hypotheses were identified. For ease of reference Figure 1.7 is now reproduced as Figure 6.8.

FIGURE 6.8: HYPOTHETICAL MODEL OF VARIABLES INFLUENCING THE CDC IPS AND NUMBER OF SIGNED INVESTORS

Independent variables   Intervening variable   Dependent variable
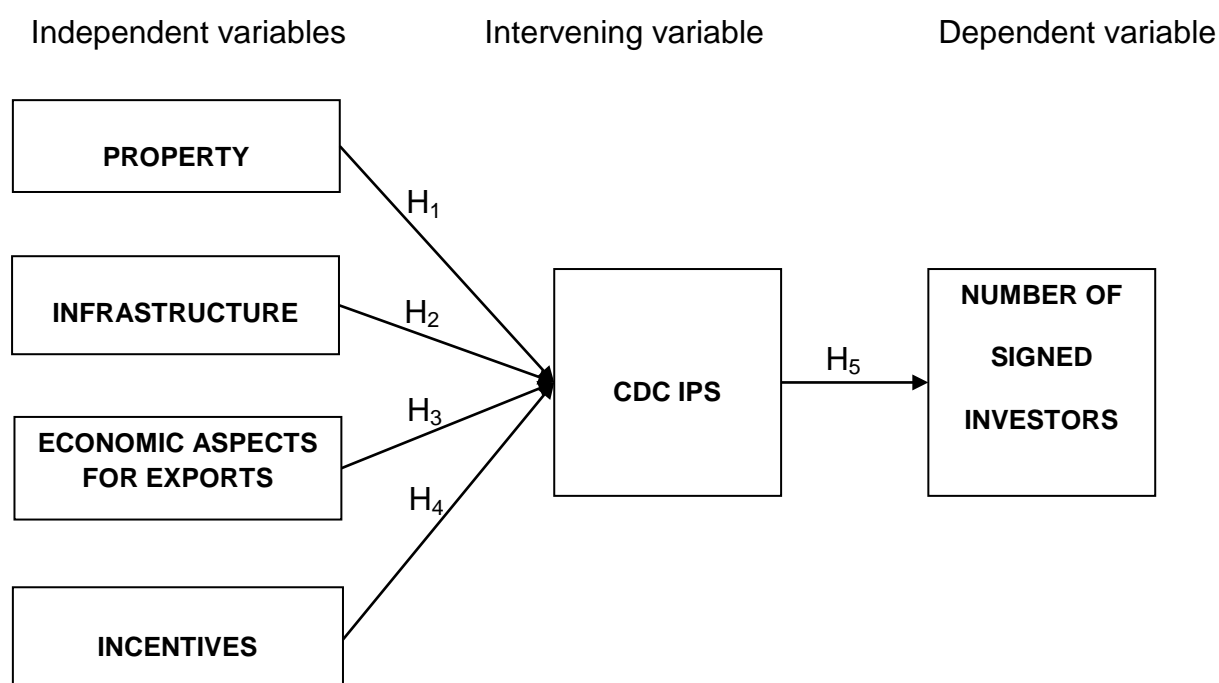
Source: Researcher's own model

From Figure 6.8 the hypotheses are the independent variables (*property, infrastructure, economic aspects for exports* and *incentives*) possibly influencing the intervening variable (*CDC IPS*) in influencing the *number of signed investors*.

Given the EFA and Cronbach's alphas reported scores, a new hypothetical model was developed. The new hypothetical model consisted of six independent variables (*location, basic infrastructure, incentives for land and buildings, exporting environment, electricity* and *incentives for exports*) instead of four independent

variables (*property, infrastructure, economic aspects for exports* and *incentives*) initially hypothesised as indicated by Figure 6.8 and the dependent variable is described as the *number of signed investors*. Figure 6.9 indicates the new hypothetical model with renamed groupings that have acceptable factor loadings of more than 0.30 and Cronbach's alphas higher than 0.6.

FIGURE 6.9: ADAPTED   HYPOTHETICAL   MODEL   OF   VARIABLES INFLUENCING THE CDC IPS AND NUMBER OF SIGNED INVESTORS
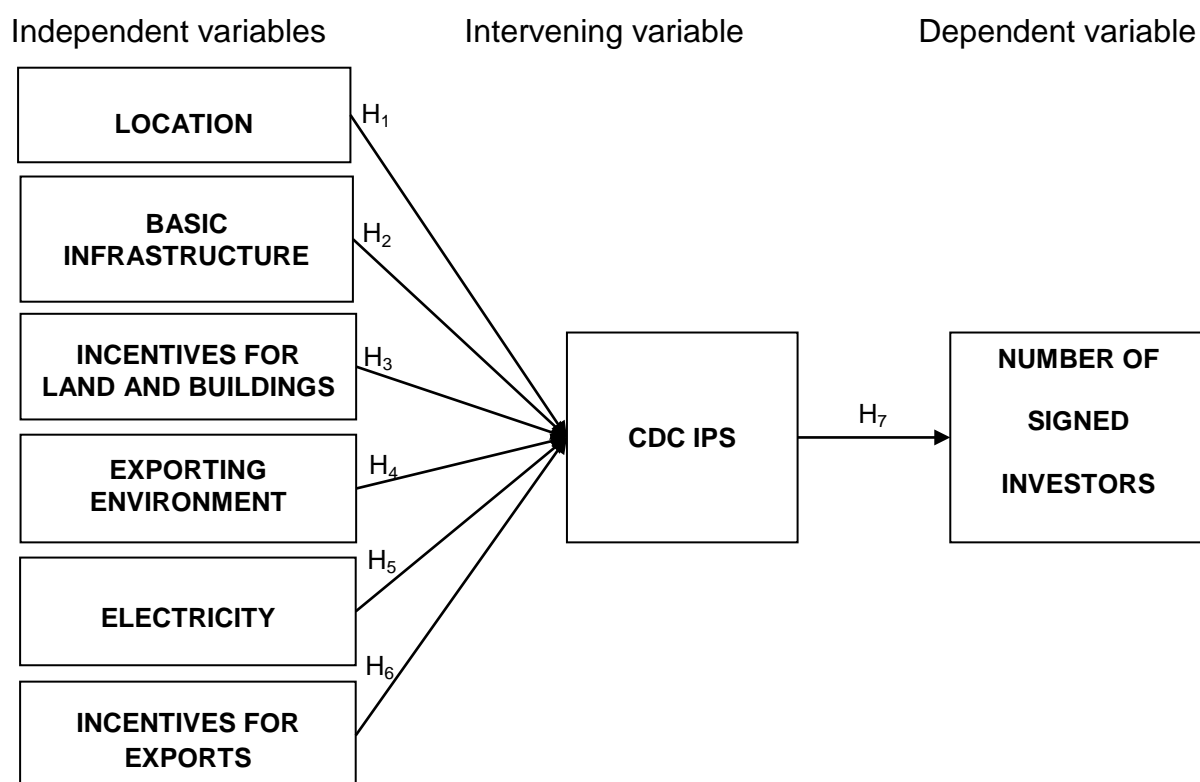
Source: Researcher's own construct

Therefore, the following new hypotheses are formulated:

H_1:   There is a significant relationship between *location* and the *CDC IPS*.

H_2:   There is a significant relationship between *basic infrastructure* and the *CDC IPS*.

H_3:   There is a significant relationship between *incentives for land and*

buildings and the *CDC IPS.*

H$_4$:   There is a significant relationship between *exporting environment* and the *CDC IPS.*

H$_5$:   There is a significant relationship between *electricity* and the *CDC IPS.*

H$_6$:   There is a significant relationship between *incentives for exports* and the *CDC IPS.*

H$_7$:   There is a significant relationship between the *CDC IPS* and *the number of signed investors* by the CDC.

The following section presents the descriptive statistics for the new factors as indicated in Figure 6.9.

6.7   DESCRIPTIVE STATISTICS OF VARIABLES

According to Hair *et al.* (2007:154) descriptive research is designed to obtain data that describes the characteristics of the topic of interest in the research. Descriptive data statistics are also useful for not just describing data but also summarising and presenting data in tables, charts, and other diagrammatic flows (Collis & Hussey, 2003:198). Descriptive statistics consists of measurements of central tendencies and measurements of dispersion. The measures of central tendencies are the mean, median and mode. The mean can be described as the arithmetic average and is a very common measure of central tendency. The median is the mid-point of a distribution. The mode is the value that occurs most (Zikmund, 2003:406). Table 6.11 summarises the descriptive statistics of the independent, intervening, and dependent variables.

TABLE 6.11:   DESCRIPTIVE STATISTICS OF VARIABLES

	Mean	Min	Max	Std Dev
Independent Variables				
Location	3.35	1.14	4.43	0.62
Basic infrastructure	3.55	1.75	5.00	0.71
Incentives for land and buildings	3.31	2.25	4.50	0.45
Exporting environment	3.51	2.50	4.75	0.48
Electricity	3.53	2.00	5.00	0.62
Incentives for exports	3.28	1.75	4.75	0.58
Intervening Variable				
CDC IPS	3.28	2.40	4.20	0.37
Dependent variable				
Number of signed investors	3.51	2.63	4.63	0.46

A five-point Likert scale was used to acquire the descriptive statistics. From Table 6.11 it can be observed that *basic infrastructure, electricity, exporting environment and number of signed investors* had mean scores that tend towards the agreement of the scale (rating 4). Respondents were on average neutral regarding *incentives for land and buildings, location, incentives for exports* and *CDC IPS*. All the standard deviations were relatively low (varying from 0.37 to 0.71) which indicates low response variances.

Pearson product moment correlation coefficients will be calculated on the factors that emerged from the EFA thereafter the hypotheses will be tested in the multiple regression analysis. The following section presents the results for the Pearson product moment correlation coefficients.

6.8   PEARSON PRODUCT MOMENT CORRELATION COEFFICIENTS

In Chapter 5, Burns and Burns (2008:15) defined correlation as the degree of correspondence between variables. One popular correlation coefficient is the Pearson product moment. The coefficient analysis is a tool that can be used to test the relationships that might exist between the hypotheses that were constructed by the researcher (Collis & Hussey, 2009:272; Zikmund *et al.,* 2010:559). Table 6.12 presents the results of the Pearson product moment correlation coefficients that were calculated for this study.

TABLE 6.12: PEARSON PRODUCT MOMENT CORRELATION COEFFICIENTS OF FACTORS INFLUENCING THE CDC IPS

	1	2	3	4	5	6	7	8
1 Location	1.000							
2 Basic infrastructure	0.048	1.000						
3 Incentives for land and buildings	0.415*	-0.003	1.000					
4 Electricity	0.333*	0.307	0.286*	1.000				
5 Incentives for exports	0.236*	0.380*	0.111	0.298*	1.000			
6 Exporting environment	0.295*	0.000	0.166*	0.212*	0.075	1.000		
7 CDC IPS	0.505*	0.437*	0.466*	0.631*	0.528*	0.257*	1.000	
8 Number of signed Investors	0.556*	0.315*	0.317*	0.681*	0.348*	0.202*	0.721*	1.000

*p<0.05

From Table 6.12 it is clear that positive correlations exist between all the variables. However, not all the correlations were statistically significant.

A strong significant positive correlation is reported between *CDC IPS* (r = 0.721; p<0.05) and the *number of signed investors* at the CDC. The implication of the relationship is that investment promotion practitioners need to strengthen the CDC IPS with the inherent determinants of FDI in the NMB region. The relationship suggests that a complete and comprehensive IPS will yield an increase in the number of signed investors by the CDC.

Moderately significant positive correlations are reported between *electricity* and *number of signed investors* (r = 0.681; p<0.05), *electricity* and *CDC IPS* (r = 0.631; p<0.05), *location* and *number of signed investors* (r = 0.556; p<0.05), *incentives for exports* and *CDC IPS* (r = 0.528; p<0.05), *location* and *CDC IPS* (r = 0.505; p<0.05), *incentives of land and buildings* and *CDC IPS* (r = 0.466; p<0.05), basic *infrastructure* and *CDC IPS* (r = 0.437; p<0.05), *location* and *incentives for land and building* (r = 0.415; p<0.05), *basic infrastructure* and *incentives for export* (r = 0.380; p<0.05), *incentives for exports* and *number of signed investors* (r = 0.348; p<0.05) *location* and *electricity* (r = 0.333; p<0.05), *incentives for land and buildings* and *number of signed investors* (r = 0.317; p<0.05), as well as *basic infrastructure* and *number of signed investors* (r = 0.315; p<0.05). The relationships suggest that locational aspects and utilities are strongly taken into

consideration when an investor is choosing a suitable destination for the investment. These include the physical location and suitability to the purpose of the firm, particularly for exporting, the nature of the building offered by the CDC to be constructed on the physical location, the price and quality of the utilities, and other incentives that come with exporting. The implication of incorporating these factors is to influence and strengthen the IPS positively.

Weak significant positive correlations were reported between *electricity* and *incentives for exports* (r = 0.298; p<0.05), *location* and *exporting environment* (r = 0.295), *incentives for land and buildings* and *electricity* (r = 0.286; p<0.05), *exporting environment* and *CDC IPS* (r = 0.257; p<0.05), *location* and *incentives for exports* (r = 0.236; p<0.05), *electricity* and *exporting environment* (r = 0.212; p<0.05), *exporting environment* and *number of signed investors* (r = 0.202; p<0.05), *incentives for land and buildings* and *exporting environment* (r = 0.166; p<0.05). The relationships suggest that a general economic outlook needs to be incorporated in the IPS by the investment promotion practitioners. The economic outlook should address the macro-economic aspects of the exporting environment inside the Coega IDZ. These could include volume exported and imported in tonnage and monetary terms. Investment promotion practitioners need to also facilitate an independent forecast of the domestic exchange rate against major currencies such as the dollar and euro for future foreign exchange earnings for potential investors. The implications of incorporating aspects of the exporting environment will influence the IPS positively.

Weak positive correlations were found between *basic infrastructure* and *electricity* (r =0.307), *incentives for land and buildings* and *incentives for exports (r = 0.111),* *incentives for exports* and *exporting environment* (r = 0.075) as well as *location* and *basic infrastructure* (r = 0.048). However these correlations were not statistically significant. A very weak negative, but not statistically significant correlation was found between *basic infrastructure* and *incentives for land and buildings* (r = -0.003). No correlation was found between *basic infrastructure* and *exporting environment* (r = 0.000).

It is evident from the Pearson product moment correlation coefficients that positive associates exist between all the variables. To determine if the hypotheses of the retained factors are either supported or rejected a multiple regression analysis is needed. The results of the multiple regressions for the factors influencing the CDC IPS will now follow.

6.9 RESULTS OF THE SIMPLE AND MULTIPLE REGRESSION ANALYSES

As previously mentioned in Chapter 5, a simple regression is a statistical technique where it is assumed that one independent variable influences or predicts another dependent variable, and includes some level of random variation. Multiple regression is described as more complex linear regression and has more than one independent variable. When the t-value of a factor is less than 1.96 at a significance level of 0.05 or less than 3.09 at a significance level of 0.001, the hypotheses is rejected (Polonsky & Waller 2011:189-190). Table 6.13 presents the results of the multiple regression analysis that was conducted to identify the influence of the independent variables on the intervening variable, *CDC IPS*.

TABLE 6.13:   INFLUENCE OF INDEPENDENT VARIABLES ON CDC IPS

Regression Summary for Independent Variable: CDC IPS			
	Beta	**t(182)**	**p-value**
Location	0.12	3.98	**0.0001***
Basic infrastructure	0.12	4.79	**0.0000***
Incentives for land and buildings	0.16	5.28	**0.0000***
Exporting environment	0.05	1.50	0.1353
Electricity	0.20	6.83	**0.0000***
Incentives for exports	0.22	5.57	**0.0000***
R= 0.83; R²= 0.68; Adjusted R²= 0.67			

*p<0.05

From Table 6.13 one can see that there is a significant positive relationship (beta = 0.12; p<0.05) between *location* and the *CDC IPS*. The relationship suggests that when the CDC IPS considers appropriate sites for location available for potential investors when crafting or implementing the IPS, this will have a positive influence on the outcome. In addition there is a significant relationship (beta = 0.12; p<0.05) between *basic infrastructure* and the *CDC IPS*. This positive relationship suggests

that the investment promotion practitioners should be transparent about infrastructure issues such as maintenance and current services in place, such as the availability of water, water quality, sewerage, and future plans for expanding those services in different zones in the Coega IDZ. The transparency will allow potential investors to perceive the CDC IPS positively.

There also exists a significant positive relationship (beta = 0.16; p<0.05) between *incentives for land and buildings* and the *CDC IPS*. The positive relationship suggests that incentives that are linked to building rentals, land rentals, cost of construction, the leasing of land, size of land, the site location and selection process, will have a positive influence on potential investors. There also exists a positive relationship (beta = 0.20; p<0.05) between *electricity* and *CDC IPS*. This suggests that mention of the current availability and price of electricity, the future plans in the Coega IDZ to expand the availability of electricity, and the reduction of the price, together with the NMBM, will influence the CDC IPS positively. Furthermore, a significant positive relationship (beta = 0.22; p<0.05) is reported between *incentives for exports* and *CDC IPS*. The positive relationship suggests that if investment-promotion practitioners include the message of incentives for exporting when crafting or implementing the CDC IPS, it will have a considerable positive influence on the CDC IPS. However, no relationship was found between the *exporting environment* and the *CDC IPS*.

Table 6.14 presents the simple regression analysis that was conducted to identify the influence of the intervening variable (*CDC IPS*) on the dependent variable *number of signed investors*.

TABLE 6.14:   INFLUENCE OF THE INTERVENING VARIABLE ON THE NUMBER OF SIGNED INVESTORS

Regression Summary for Dependent Variable: Number of signed investors			
	Beta	**t(185)**	**p-value**
CDC IPS	**0.90**	**14.14**	**0.0000***
R= 0.72; R²= 0.52; Adjusted R²= 0.52			

*p<0.05

From Table 6.14 it is evident that a significant positive relationship exists between the *CDC IPS* and the *number of signed investors* (beta = 0.90; p<0.05). This relationship suggests that the number of signed investors at the CDC depends largely on the crafting and implementing of the CDC IPS. Important aspects of the CDC IPS include timeous investment promotion information, diversification onto various sectors and industries, a clear unique selling proposition, a rigorous investor outreach programme, a cross-functional business development, and commercial team and CDC combined efforts towards investment promotion.

After the Pearson product moment correlation analysis and multiple regression analysis were performed, the hypotheses that were previously developed in the new hypothetical model indicated by Figure 6.9 could be evaluated.

Against this background, support were found for the hypothesised relationships between *location* (H_1), *basic infrastructure* (H_2), *incentives for land and buildings* (H_3), *electricity* (H_5), *incentives for exports* (H_6) and *CDC IPS*. Support is also found for the hypothesised relationship between the *CDC IPS* and the *number of signed investors* (H_7). Therefore the following hypotheses are accepted:

H_1:   There is a significant relationship between *location* and the *CDC IPS*.

H_2:   There is a significant relationship between *basic infrastructure* and the *CDC IPS*.

H_3:   There is a significant relationship between *incentives for land and buildings* and the *CDC IPS*.

H_5:   There is a significant relationship between *electricity* and the *CDC IPS*.

H_6:   There is a significant relationship between *incentives for exports* and the *CDC IPS*.

H_7:   There is a significant relationship between the *CDC IPS* and *number of signed investors*.

Therefore, no support was found for hypothesis H4 stating that there is a relationship between *exporting environment* and the *CDC IPS.*

6.10   RESULTS OF THE T-TESTS AND THE COHEN'S D VALUES

According to Hussey & Hussey (1997:235), a t-test is a parametric technique used for either independent or related samples. Zikmund (2003:524) agrees that a t-test is a technique used to test the hypothesis that the mean scores on interval-scaled variables are significantly different for two independent samples or groups. Cohen's d values can be calculated to assess the practical significance of mean values and measure the effect between mean values of two or more groups (Beins & McCarthy, 2012:186). Table 6.15 indicates the classification of practical significance according to Cohen's d values.

TABLE 6.15:   CLASSIFICATION OF COHEN'S D VALUES

Values	Practical significance
0.20 ≤0.50	Small
0.50 ≤0.80	Medium
0.80 >	Large

Source: Adapted from Beins and McCarthy (2012:186)

From Table 6.15 it is clear that should the t-test report a Cohen's d value of between 0.20 and 0.50, the practical significance of the means test is small. A medium practical significance lies between 0.50 and 0.80. A large practical significance is reported if a Cohen's d value is greater than 0.80.

For the purpose of the study two separate t-tests were undertaken to identify whether significant relationships exist between two selected biographical variables and the independent, intervening, and dependent variables.

The aim of the first t-test was to determine whether operational and non-operational investors perceive the independent, intervening and dependent variables differently.

The following hypotheses were formulated:

HO$_1$:   There is no significant difference in the mean scores of *location* between *operational and non-operational investors.*

HO$_2$:   There is no significant difference in the mean scores of *basic infrastructure* between *operational and non-operational investors.*

HO$_3$:   There is no significant difference in the mean scores of *incentives for land and buildings* between *operational and non-operational investors.*

HO$_4$:   There is no significant difference in the mean scores for *exporting environment* between *operational and non-operational investors.*

HO$_5$:   There is no significant difference in the mean scores for *electricity* between *operational and non-operational investors.*

HO$_6$:   There is no significant difference in the mean scores for *incentives for exports* between *operational and non-operational investors.*

HO$_7$:   There is no significant difference in the mean scores for the *CDC IPS* between *operational and non-operational investors.*

HO$_8$:   There is no significant difference in the mean scores for *the number of signed investors* between *operational and non-operational investors.*

Table 6.16 summarises the t-test results of the perceptions of operational and non-operational investors regarding the independent, intervening and dependent variables.

TABLE 6.16:   T-TEST SUMMARY OF OPERATIONAL AND NON-OPERATIONAL INVESTORS REGARDING THE INDEPENDENT, INTERVENING AND DEPENDENT VARIABLES

Variables	Mean O	Mean NO	t-value	Df	p	Cohen's d	Practical significance
Location	3.34	3.44	-0.72	185	0.4729		
Basic infrastructure	3.56	3.46	0.60	185	0.5461		
Incentives for land and buildings	3.31	3.31	0.02	185	0.9859		
Exporting environment	3.55	3.21	3.00	185	0.0030*	0.71	Medium
Electricity	3.56	3.31	1.70	185	0.0906**	0.40	Small
Incentives for exports	3.26	3.40	-1.02	185	0.3101		
CDC IPS	3.28	3.29	-0.08	185	0.9383		
Number of signed investors	3.51	3.50	0.13	185	0.8964		

Significant at 5% level (p<0.05) *

Significant at 10% level (p<0.10) **

Key: O = Operational investors

NO = Non-operational investors

Table 6.16 indicates that there are no statistically significant differences in the mean scores between operational and non-operational investors regarding the *location, basic infrastructure, incentives for land and buildings, incentives for exports,* the *CDC IPS* and the *number of signed investors*. Differences in the mean scores of operational and non-operational investors regarding the *exporting environment* and *electricity* were found. As evident from the Cohen's d results in Table 6.16, the difference between the operational and non-operational investors' perceptions regarding the *exporting environment* was of medium practical significance whereas the difference between the same two groups regarding *electricity* was of small practical significance. Therefore there are differences in the perceptions of the operational and non-operational investors regarding these two independent variables.

No difference was also noted between the mean scores of operational and non-operational investors regarding the intervening (*CDC IPS*) and the dependent (*number of signed investors)* variables.

The second t-test aimed to determine whether there are significant differences in the perceptions of South African or non-South African investors regarding the independent, intervening, and dependent variables.

The following hypotheses were formulated:

HS$_1$:   There is no significant difference in the mean scores of *location* between *South African investors and non*-South African investors.

HS$_2$:   There is no significant difference in the mean scores of *basic infrastructure* between *South African investors and non-South African investors.*

HS$_3$:   There is no significant difference in the mean scores of *incentives for land and buildings between South African investors and non-South African investors.*

HS$_4$:   There is no significant difference in the mean scores of *exporting*

environment between *South African investors and non-South African investors* and *exporting environment.*

HS$_5$: There is no significant difference in the mean scores of *electricity* between relationship between the mean scores of *South Africa investors and non-South African investors.*

HS$_6$: There is no significant difference in the mean scores *of incentives for exports between South African investors and non-South African investors.*

HS$_7$: There is no significant difference in the mean scores of the *CDC IPS* between *South African investors and non-South African investors.*

HS$_8$: There is no significant difference in the mean scores of the *number signed investors* between *South African investors and non-South African investors.*

Table 6.17 presents the t-test results of the differences in mean scores between the biographical data variable (South African or non-South African investors) and the independent, intervening, and dependent variables.

TABLE 6.17: T-TEST SUMMARY OF SOUTH AFRICAN AND NON-SOUTH AFRICAN INVESTORS REGARDING THE INDEPENDENT, INTERVENING AND DEPENDENT VARIABLES

Variables	Mean SA	Mean Non-SA	t-value	Df	P	Cohen's d	Practical significance
Location	3.28	3.49	-2.26	185	0.0251*	0.35	Small
Basic Infrastructure	3.46	23.74	-2.50	185	0.0133*	0.39	Small
Incentives for land and buildings	3.29	3.24	0.62	185	0.5373		
Exporting environment	3.56	3.42	1.89	185	0.0608**	0.29	Small
Electricity	3.48	3.64	-1.57	185	0.1171		
Incentives for exports	3.26	3.42	-2.33	185	0.0208*	0.36	Small
CDC IPS	3.27	3.31	-0.80	185	0.4274		
Number of signed investors	3.45	3.64	-2.62	185	0.0095*	0.41	Small

Significant at 5% level (p<0.05) *

Significant at 10% level (p<0.10) **

Key: SA = South African investors

Non-SA = Non-South African investors

Table 6.17 indicates that there are no statistically significant differences between the perceptions of South African and non-South African investors regarding the *incentives for land and buildings, electricity* and the *CDC IPS*. Differences in perceptions of South African and non-South African investors regarding *location*, *basic infrastructure*, *exporting environment* and *incentives for exports* were found. As evident from the Cohen's d results in Table 6.17, these differences were of small practical significance. Therefore there are differences in the perceptions of the South African and non-South African investors regarding these independent variables. Furthermore, a small practical significant difference was also noted between the perceptions of South African and non-South African investors regarding the dependent variable *number of signed investors*. This is evident if one considers the Cohen's d value (0.41) presented in Table 6.17.

6.11   SUMMARY

The chapter focused on the presentation and discussion of the empirical findings. These findings included the presentation of biographical data of the firms that participated in the study. The biographical data described the characteristics of the firms. The characteristics included whether the firm was local or foreign, whether the firm was operational or non-operational, the main type of trade the firm engaged in, and the firm's long-term business objectives. The validity and reliability of the measuring instrument were also determined. Initially there were four determinants of FDI that were identified from literature. The test for construct validity revealed six determinants of FDI that could influence the IPS positively, namely *location, basic infrastructure, incentives for land and buildings, exporting environment, electricity* and *incentives for exports*. The Cronbach's alpha correlation coefficients were determined and sufficient evidence for inter-item reliability for all the variables was found. Therefore the hypothetical model was adapted to reflect the new variables and the hypotheses were reformulated accordingly. Thereafter descriptive statistics, Pearson product moment correlation coefficients and multiple and simple regressions were calculated and discussed. The analysis explored the relationships that exist between the independent, intervening, and dependent variables. The results revealed that relationships exist between all the independent variables and the *CDC IPS*, except between the factor *exporting environment* and *CDC IPS.*   A strong significant positive

relationship was observed between the factors *CDC IPS* and *number of signed investors*.

Finally t-tests were conducted to assess the differences in mean scores between the operational and non-operational investors and South African and non-South African investors regarding the six independent, intervening and dependent variables. The practical significance was also calculated by means of Cohen's d values. Practical significant differences in mean scores were found between operational and non-operational investors and *electricity* and the *exporting environment*. Practical significant differences in mean scores were also found between South African and non-South African investors regarding the *exporting environment, basic infrastructure, location, incentives for exports* and *the number of signed investors*.

The final chapter will present a summary of the research study, and the empirical results will be discussed. Recommendations on how to adapt the CDC IPS to increase the number of signed investors at the CDC will be made based on the results presented. This will be communicated to the Business Development Executive Manager as well as the Investment Promotion Stream.

CHAPTER 7
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1   INTRODUCTION

Chapter 6 reported on the empirical results of the study. These results included the presentation of biographical data and determining the validity and reliability of the measuring instrument. Thereafter the descriptive statistics, Pearson product moment correlation coefficients and multiple and simple regression calculations were provided. T-tests were conducted and Cohen's d values were calculated. The relationships that exist between the predetermined independent, intervening, and dependent variables were discussed.

This chapter will present a summary of how the objectives of the study were met. An overview of the study will be provided and the empirical results will be discussed. Conclusions and recommendations will be made on how to adapt the CDC IPS in terms of the determinants of FDI with the aim to increase the number of signed investors signed at the CDC. The contribution of the study will be highlighted. A discussion on the limitations of the study and possible areas for future research will be provided. The chapter will conclude with some final remarks.

7.2   ATTAINMENT OF OBJECTIVES OF THE STUDY

Table 7.1 depicts how the objectives of this study were met.

TABLE 7.1: ACHIEVEMENT OF THE OBJECTIVES OF THE STUDY

	Objectives of the study	How and where it was achieved
Secondary	To review literature on IDZs, Special Economic Zones (SEZ), IPS and FDI in general.	The objective is achieved in the debate and detailed discussions in the literature **Chapters 2 and 3.**
	To review the CDC IPS and other related documentation.	The objective is achieved in the detailed discussions in the literature, **Chapter 3** and **Chapter 4**, which introduced the hypothetical model and predetermined determinants of FDI based on the literature and confidential CDC documentation.
	To empirically test the determinants of FDI that will influence the number of signed investors located in the Coega IDZ.	The objective is achieved in **Chapters 5** and **6** which covered the research methodology and empirical results. **Chapter 7** provides a discussion of the empirical results from the primary research conducted for this study.
	To provide recommendations to the Business Development Executive Manager on how to adopt the IPS in terms of the determinants of FDI to increase the number of signed investors in the CDC.	This is presented in **Chapter 7** where recommendations are provided based on the main empirical and literature findings of this study.
Primary	To investigate whether the various determinants of FDI influence the IPS used by the CDC, and how these determinants can be used in the IPS to influence the number of signed investors.	This is presented in **Chapter 6,** and this chapter was based on the main empirical and literature findings of the study.

Table 7.1 provided an overview of the objectives of this study and a brief explanation of how the objectives were met.

7.3 OVERVIEW OF THE LITERATURE

A brief overview of all the chapters will be provided.

7.3.1 OVERVIEW OF CHAPTER 1

Chapter 1 provided an introduction to the study. A brief literature review was given and the primary and secondary objectives of the study identified. The literature introduced a few concepts relating to investment promotion and the current state

of FDI in the sub-Saharan African region. The concepts included the three modes of marketing, namely promotion, investment promotion strategies and investment promotion activities. The primary objective of this study was to investigate whether the various determinants of FDI influence the IPS used by the CDC, and how the IPS can be used to increase the number of signed investors at the CDC. In order to address the primary objective, the following secondary objectives were formulated:

- To review literature on IDZs, SEZs, IPS and FDI in general;
- To review the CDC IPS and other related documentation;
- To empirically investigate the determinants of FDI that will enhance the number of signed investors located into the Coega IDZ; and
- To provide recommendations to the Business Development Executive Manager on how to adopt the IPS in terms of the determinants of FDI to increase the number of signed investors at the Coega IDZ.

After the primary and secondary objectives were discussed, the research design, methodology and research hypotheses were presented. The hypothetical model to be tested was provided. Lastly the scope and the significance of the study were considered.

7.3.2   OVERVIEW OF CHAPTER 2

A detailed literature review was presented in Chapters 2 and 3. Chapter 2 focused on the four objectives of IDZs, namely job creation, foreign exchange earnings, FDI attraction, and technology transfer. The four main objectives were important as they encouraged the socio-economic welfare and economic growth of the designated region. These objectives highlighted the importance of IDZs and the role they play in the respective regions. The increasing unemployment rate in South Africa, which is a central harassment to the government's efforts for the eradication of poverty, was noted. The current unemployment rate in South Africa is 36.1% in the broad definition. The extent to which SSA has managed to attract FDI over the years was also outlined, and the difficulty of measuring skills transfer in host countries was referred to. The difficulties experienced by SSA countries to attracting FDI varied from not knowing the type of FDI to attract to the appropriate

volumes of FDI that are needed for sustainable economic growth. An overview of the Coega IDZ and its recognised socio-economic efforts in the Eastern Cape region was also provided. The main zones in the Coega IDZ were given as metals, textiles, automotive, services, chemicals, and energy.

7.3.3 OVERVIEW OF CHAPTER 3

Chapter 3 explored the current state of FDI attraction to the sub-Saharan African countries as well as South Africa. The chapter also described the four main types of FDI that are common to host countries. These included market-, resource-, efficiency-, and asset-seeking FDIs. Market-seeking FDI is predominantly concerned with market growth. The resource-seeking FDI values natural endowments of that particular continent. Efficiency-seeking FDI takes advantage of special features such as the labour force, quality and efficiency of infrastructure, and the asset-seeking type of FDI strive for acquiring local companies and market knowledge. The chapter also indicated the classifications of FDI in terms of the objective, relevant alternatives, internalisation determinants, and localisation determinants. The main objectives of the different types of FDIs varied from acquiring particular resources present in foreign market/location, exploiting a foreign market, to acquiring assets not directly transferable via market transactions. The chapter also discussed other aspects of the investment promotion concept, such as the investment promotion drivers, which included image building, investment generation, policy advocacy, and available investment services activities. The investment promotion process was explored, which is a crucial process for capital budgeting decisions for any potential investor. The overall determinants of FDI identified from the literature were discussed and summarised. These determinants included property, infrastructure, economic aspects for exports, and incentives. Attention was also given to SEZs and their role from a South African industrial policy perspective. A SEZ was described as a geographically designated area of a country set aside for specifically targeted economic activities, supported through special arrangements that may include laws and systems that are often different from those that apply to the rest of the country. Chapter 3 concluded with a brief generalised introduction of the determinants of FDI, which were property, infrastructure, economic aspects for exports, and incentives.

7.3.4 OVERVIEW OF CHAPTER 4

Chapter 4 focused on the determinants of FDI and the hypothetical model formulated based on the literature review in Chapters 2 and 3. The chapter introduced the independent, intervening, and dependent variables to be tested in this study. The independent variables, namely property, infrastructure, economic aspects of exports, and incentives, were defined and then contextualised in the Coega IDZ. Property was defined as the terms investors will obtain when negotiating for land and/or building. Infrastructure was defined as the physical facilities of the Zone/Park. The economic aspects for exports were described as the macro and micro economic aspects that constitute a conducive exporting environment. Infrastructure was the name given to the physical facilities of the Zone/Park, such as roads, access to suppliers, customers, utilities, and transport. Lastly, incentives were the special benefits given by the government to investors. The intervening variable, namely the CDC IPS, was defined and described as the collective efforts by the CDC to attract investment during the five- year period from 2009 to 2013. The structure and programme from which the IPS strategy was implemented, was introduced and explained. The dependent variable, namely the number of signed investors at the CDC, was defined as investors with signed lease agreements with CDC regardless of being operational or not. The current signed investors in the Coega IDZ were categorised as being either operational or non-operational. Furthermore, the chapter focused on determinants of FDI in the CDC context and highlighted why property, infrastructure, economic aspects for exports and incentives are important for CDC. The drafting of the five-year CDC IPS as well as the roles and functions of the supporting business units and internal structures, were discussed. It was noted that the accumulated investment value of the CDC by sector totalled R48.675 billion from 2009 to 2013. This investment value included operational and non-operational signed investors. Finally, the state of the number of new investors signed during the 2012/13 financial year by the CDC was outlined. Some of the signed investors included Agni Steel, DCD Dorbyl, Famous Brands and First Automotive Works (FAW).

7.3.5 OVERVIEW OF CHAPTER 5

Chapter 5 provided the research design and methodology that were followed in the study. For the purposes of the study a quantitative approach was adopted. The

population, sample, measuring instrument, data collection, sample size, ethical considerations and administration of the measuring instrument were discussed. The measuring instrument was self-developed and self-administered and comprised of two sections. Section A collected the biographical data of the firms and closed-ended questions were used. Section B made use of a five-point Likert type scale to collect the perceptions of the investors regarding the determinants of FDI, CDC IPS and the number of signed investors.

The population consisted of all the firms with signed lease agreements to locate within South African IDZs. The sample consisted of all the signed investors at the CDC. Convenience and judgemental sampling techniques were adopted and five respondents per signed investor (firm) were included in the study. A total of 205 questionnaires were distributed, and a total of 187 questionnaires were returned that was usable. The resultant data was subjected to statistical analysis. The statistical analysis consisted of:

- descriptive statistics of the biographical data of the firms included in the study;
- EFA for construct validity of the factors;
- Cronbach's alpha coefficients for reliability of the factors;
- descriptive statistics of the variables;
- Pearson product moment correlation coefficients for associations;
- multiple and simple regression analyses for hypotheses testing; and
- Cohen's d values to determine the practical significance of differences where applicable.

7.3.6   OVERVIEW OF CHAPTER 6

Chapter 6 presented the results of the empirical investigation of the study. The chapter first presented the descriptive statistics of the biographical data of the firms that participated in the study, which included: the industry participation, whether the firm was South African or non-South African, the main type of trade, the country of origin, and the long-term business objectives. It was found that the majority of the firms located signed by the CDC are firms that originated from South Africa. These South African firms mainly participated in domestic trade and

have been operating for more than five years in the Coega IDZ.

Content validity was assured by conducting a pilot study with one of the signed investors at the CDC, while face validity was achieved through the use of experts in the field of management. Thereafter the construct validity of this study was ensured by performing an EFA. The items loaded onto six new factors and each of the new factors was renamed and defined. The new factors were *location, basic infrastructure, incentives for land and buildings, exporting environment, electricity,* and *incentives for exports*. The intervening (*CDC IPS*) and dependent (*number of signed investors*) variables remained unchanged.

The Cronbach's alpha coefficients were calculated for each of the new independent variables as well as for the intervening (*CDC IPS*) and independent (*number of signed investors*) variables to ensure inter-item reliability. Cronbach's alpha coefficients with a value less than 0.60 were excluded from further analysis. Amongst the reliability tests, a minimum Cronbach's alpha coefficient of 0.57 and a maximum Cronbach's alpha coefficient of 0.78 were reported. The variable with a Cronbach's alpha of 0.57 was retained as it was close to the 0.60 acceptance point. Therefore it is evident that the reliability and internal consistency of the measurement instrument were satisfactory. Based on the EFA and Cronbach's alpha results, the hypotheses were reformulated, and the hypothetical model was also adapted accordingly.

Basic infrastructure, electricity, exporting environment and *number of signed investors* had mean scores that tended towards the agreement of the scale (rating 4). Respondents were neutral (rating 3) regarding *location, incentives for land and buildings, incentives for exports* and the *CDC IPS*. The standard deviations ranged from 0.37 to 0.71 indicating low response variances.

The Pearson product momentum correlation coefficient showed a strong positive significant association between *CDC IPS* and *number of signed investors* at the CDC. Moderate and weak positive significant associations were also reported between most of the variables. The implications of these relationships were that investment promotion practitioners needed to strengthen the CDC IPS with the

inherent determinants of FDI in the NMB region. Furthermore locational aspects and utilities are strongly taken into consideration when an investor is choosing a suitable destination for the investment.

Multiple regression analysis was performed to determine whether the independent variables *location, basic infrastructure, incentives for land and buildings, exporting environment, electricity, and incentives for exports* influence the *CDC IPS* and whether the *CDC IPS* influences the *number of signed investors* at the CDC. The multiple regression revealed that significant positive relationships exist between the independent variables *location, basic infrastructure, incentives for land and buildings, exporting environment, electricity, and incentives for exports* and *CDC IPS*. Furthermore a significant positive relationship exists between the intervening variable *CDC IPS* and *number of signed investors* at the CDC. Figure 7.1 depicts the significant relationships between the independent, intervening, and dependent variables.

FIGURE 7.1:   SIGNIFICANT   RELATIONSHIPS   BETWEEN   THE
INDEPENDENT, INTERVENING AND DEPENDENT VARIABLES

Source: Researcher's own model

The t-test on the differences in mean scores between the operational and non-operational investors regarding the independent, intervening and dependent variables indicated that there was no statistically significant difference between the mean scores of operational and non-operational investors regarding the *location, basic infrastructure, incentives for land and buildings, incentives for exports*, and *CDC IPS*. Practical significant differences in the mean scores of operational and non-operational investors regarding *exporting environment* (medium) and *electricity* (small) were found. Therefore there were differences in the mean scores of the operational and non-operational investors regarding these independent variables. No difference was noted between the mean scores of operational and non-operational investors regarding the dependent variable *number of signed investors* at the CDC.

The t-test for South African and non-South African investors revealed that there was no statistically significant difference between the mean scores of South African and non-South African investors regarding the *incentives for land and buildings, electricity* and *CDC IPS*. Small practical significant differences in mean scores of South African and non-South African investors regarding *location, basic infrastructure, exporting environment and incentives for exports* and *number of signed investors* at the CDC were found. Therefore there were differences in the mean scores of the South African and non-South African investors regarding these variables.

7.4 CONCLUSIONS AND RECOMMENDATIONS

The following section will present conclusions and recommendations based on the empirical and literature research results.

7.4.1 LOCATION

Location presented a weak positive statistically significant relationship with the *CDC IPS.* The relationship suggests that locational aspects are an important consideration when an investor is choosing a suitable destination for the investment. These include the physical location, the nature of the building offered by the CDC to be constructed on the physical location, as well as the price and

quality of supply of the utilities. The implication of incorporating these factors will influence and strengthen the IPS positively.

This positive relationship suggests that the investment promotion practitioners should be transparent about the locational aspects in the Coega IDZ, such as building rentals, cost of construction, the leasing of land, size of land, the site location, and the location selection process. The transparency will allow potential investors to view the CDC IPS positively. The following recommendations are made regarding the variable *location*:

- Even though aspects of location are subject to the negotiation of the lease agreement and remain confidential, the IPS needs to communicate not only the tangible attributes of the CDC location offering, but also the intangible aspects of the offering. These intangible aspects include the rental of land and buildings as well as the availability and price of utilities such as electricity, water, and other basic services. These costs may influence the decision of the potential investor to locate at the CDC.

- The CDC IPS needs to incorporate any other plans with the NMBM in the future or currently being implemented in the Coega IDZ that will decrease the cost of intangible aspects of the location as mentioned above. The IPS should be tailored to communicate long-term cost reduction benefits for the sites available to the potential investor, as it may positively influence the decision to locate at the CDC.

- The SDU and Business Development team need to be aware of the type of FDI (market-seeking FDI, resources-seeking FDI, efficiency-seeking FDI or asset-seeking FDI) under which the potential investor falls during the site allocation and selection process. The type of FDI will influence the site allocated to the investor and this could influence the market growth prospects of the potential investor.

- The CDC should continue lobbying for the option for potential investors to purchase land inside the Coega IDZ. Investors are currently (2014) only allowed to rent land within the Coega IDZ, but the buildings on the land can be owned.

7.4.2   BASIC INFRASTRUCTURE

Basic infrastructure has a weak but statistically significant positive relationship with the *CDC IPS*. This relationship suggests that investment promotion practitioners should be transparent about the basic infrastructure issues such as site maintenance, the availability of water, water quality, sewerage, and future plans for expanding these services in different zones in the Coega IDZ. The transparency will allow potential investors to make informed decisions.The positive relationship suggests that if investment promotion practitioners factor the message of above-average infrastructure in the IDZ when crafting or implementing the CDC IPS, it will have a considerable positive influence on the CDC IPS. The following recommendations are made regarding the variable *basic infrastructure*:

- Infrastructure in the Coega IDZ is very important for potential investors, and needs to feature in the information content provided by the IPS, particularly in the investment promotion mission plans to various sectors and industries.
- The CDC IPS should communicate not only the availability of the basic infrastructure to the potential investors, but also the maintenance of this basic infrastructure to ensure the availability thereof for future usage.
- The IPS should communicate to the potential investors that suppliers and customers are accessible and can easily be reached from the CDC.
- The IPS should promote the benefit of the harbour adjacent to the IDZ, for importing and exporting purposes for potential investors, particularly those in the manufacturing industry.
- The information that the IPS provides to potential investors should illustrate how the basic infrastructure at the Coega IDZ can be integrated with that of the NMBM.

7.4.3   INCENTIVES FOR LAND AND BUILDINGS

Incentives for land and buildings presented a weak but positive statistically significant relationship with the *CDC IPS*. This relationship suggests that incentives that are linked to building rentals, land rentals, cost of construction, the leasing of land, size of land, the site location and selection process, will have a positive influence on potential investors. Furthermore, the positive relationship

suggests that when the CDC IPS considers fiscal incentives available for potential investors when crafting or implementing the IPS, this will have a positive influence on the outcome. Based on the results, the following recommendations regarding *incentives for land and buildings* are suggested:

- Current and potential investors have confidence in the incentives being administered provincially and nationally. Therefore, investment promotion practitioners should not be concerned with lobbying for land and building incentives to be administered locally, namely by the NMBM.
- The CDC IPS should provide information to potential investors regarding incentives for land and buildings that can be quantified, such as building allowances and exemption from rates and levies. Land and building legal guarantees, simple tax systems, and depreciation methods, should be emphasised in the communication with potential investors.
- Future land and building incentives that the CDC is currently lobbying for should be included in the communication with current and potential investors.
- Land and building incentives currently under review by the South African government should be included in the IPS communication to current and potential investors. However, it should be made clear in the communication that investment promotion practitioners have little control over the lobbying process. This action will reinforce the transparency of the IPS and reassure the potential investors of the CDC's efforts involved in the lobbying process.

7.4.4   ELECTRICITY

Electricity presented a weak positive statistically significant relationship with the *CDC IPS*. The positive relationship suggests that it is important for the investment promotion practitioners to communicate the competitiveness of the price of electricity and the availability of electricity in the IDZ, when drafting the CDC IPS. This will have a positive influence on the CDC IPS. Therefore the following recommendations regarding *electricity* are made:

- As both operational and non-operational investors viewed electricity as a

key utility for operations, it should be prioritised in terms of availability and pricing, and be communicated as such to the investors.

- The CDC IPS should seek to attract investors in the renewable energy sector such as energy generating plants to supplement the electricity supplied by the NMBM to the Coega IDZ/Park.

- The CDC should maintain the bulk buying agreement with the NMBM through monthly meetings to improve the quality of electricity supply to potential and current investors.

- The CDC should prioritise the investigation into the benefits of reduced electricity costs from the NMBM to investors operating inside the CCA. This lower electricity costs will lead to a reduction in input costs for exporters, thus stimulating larger volumes of export to foreign markets.

- Since the CDC owns a number of buildings within the Coega IDZ, the Business Development Executive Manager and the Operations Executive Manager should find ways to install solar panels on the roofs of the CDC owned buildings to benefit from the solar electricity which could then be sold to investors inside the Coega IDZ/Park at a competitive price. The CDC will also benefit from solar electricity as they will be able to reduce their own electricity costs.

7.4.5   INCENTIVES FOR EXPORTS

Incentives for exports showed a weak positive statistically significant relationship with the *CDC IPS*. This relationship suggests that if investment promotion practitioners communicate the incentives for exports available to investors when drafting the CDC IPS, it will have a positive influence on the CDC IPS. Furthermore, the positive relationship suggests that communications including economic aspects of exporting, such as the potential for investors to increase exports in the future, the incentives that pertain particularly to exporting and the ideal nature of the Coega IDZ as an exporting hub to foreign markets will positively influence the perceptions of potential investors towards the CDC IPS. The following recommendations are made regarding the *incentives for exports*:

- Investment promotion practitioners should consider the type of FDI the potential investor falls under, as this could determine whether the investor

is likely to export in the medium or long term.

- The investment promotion practitioners should familiarise themselves with the types of goods that are already being exported from the Coega IDZ to foreign markets. This information will enable the investment promotion practitioners to engage with potential exporting investors on the suitability of the CDC as an exporting hub, by providing practical business examples. This will reassure potential investors of the advantage of exporting from the Coega IDZ.

- The investment promotion practitioners should, when lobbying for incentives for exporting orientated firms, emphasise price competitiveness and the availability of quality utilities such as water and electricity.

- The CDC should ensure that the IPS clearly distinguishes between incentives for exports that apply to raw materials, semi-finished goods, and finished goods respectively. These incentives should also be clearly communicated to the current and potential investors.

7.4.6 CDC IPS

The *CDC IPS* showed a strong positive statistically significant relationship with the *number of signed investors* at the CDC. This relationship suggests that the number of signed investors at the CDC depends largely on the content of the CDC IPS. Important aspects of the CDC IPS include timeous investment promotion information, diversification of lead generation into various sectors and industries, a clear unique selling proposition, a rigorous investor outreach programme, and cross-functional efforts towards investment promotion. The positive relationship suggests that if the efforts of the investment promotion practitioners of the Commercial and Global Markets Sections and the identified determinants of FDI are considered when drafting the IPS, it will have a positive influence on the number of signed investors at the CDC. Based on these results, the following recommendations are suggested for the variable *CDC IPS*:

- The IPS currently consists of four sections, namely image building, lobbying for incentives, investment aftercare, and FDI attraction and lead generation. Currently at the CDC there are only two within-the-business units, namely the investment aftercare function which resides under the

Operations Business Unit, and FDI attraction (Global Markets) which is under the Business Development Unit. The CDC should consider adding the lobbying section to its IPS structure, and look towards the NMBM for the image-building function for the NMBM region. This would result in a fully-fledged IPS, which will address all the concerns and needs for government incentives for current and potential investors.

- The CDC should consider dividing the investment aftercare function which is currently known as Investor Services, into pre-investment and after-investment auxiliary functions, as these functions perform different roles in the investment attraction process.

- The CDC IPS should classify the type of FDI a potential investor will provide, in order to capture the key success areas that are important to the potential investor. The key success areas would be included in the tailored message for the targeted investor operating in that particular industry.

- The CDC IPS should showcase under the investment aftercare component the future and current expansion opportunities for existing investors in the Coega IDZ. The IPS should facilitate a simplistic approach towards expansion within the CDC, regardless of the type of industry the investor operates in.

- To align CDC with the DTI investment promotion objectives, the CDC IPS should consist of targeted strategic sectors and industries reflected in the IPAP.

7.5   CONTRIBUTION OF THE STUDY

This study has made a substantial contribution to understand the importance of the various the types of FDI in the IDZ, and also the key determinants on which the CDC IPS should focus to attract FDI. The development of the hypothetical model from general literature has contributed to previous knowledge in the field of study of FDI and investment promotion. Furthermore, the study has established the type and motives of FDI present in the Coega IDZ, the largest IDZ in South Africa, as well as the main determinants of FDI that are responsible for the current investment within the Coega IDZ/Park.

The study has also contributed to an understanding of the general management of

the IPS by investment promotion practitioners. It has also provided a basis to investment promotion practitioners on tailoring the IPS to create a relevant message that is effective and specific to each sector in an economical way. The current literature regarding IPS and the management thereof are very limited and therefore it added to the body of IPS knowledge.

As the South African government is currently implementing SEZs, the study can assist the DTI when drafting IPSs for these newly formed SEZs, in order for them to be effective facilitators of socio economic welfare and economic growth through FDI attraction.

7.6 LIMITATIONS OF THE RESEARCH STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH

Some research limitations were experienced during the completion of the study. These limitations are discussed below.

There are four main types of FDI in existence in the literature. The four main types of FDI are market-seeking FDI, asset-seeking FDI, efficiency-seeking FDI, and resource-seeking FDI. The limiting classification of the types of FDI could have significant implications in executing the IPS, as motives of FDI are at the core of attracting these types of FDI.

This study focused on the four predetermined variables, namely property, infrastructure, economic aspects for exports, and incentives. Other independent variables might exist, but for the purpose of this study only these four variables were identified and investigated.

Future research could possibly explore other independent variables that have been mentioned in previous studies, which were not included in the hypothetical model for testing. These studies suggest that there are a number of other variables that might attract FDI. Dah and Khadijah (2010) have found a positive relationship between FDI flows and locational attraction. Djokoto (2012:48) has described locational attraction as natural resources or created endowments in the land which attracts FDI, in the specific location. These include oil, coal, precious metals and

stones. Future research can possibly include the other variables mentioned by the studies.

The study focused on the predetermined intervening variable, namely the CDC IPS. Other intervening variables might exist, but for the purpose of this study only the CDC IPS was identified as an intervening variable and investigated.

Lastly, future research can possibly include reasons why signed investors by the CDC have resumed operations long after the operational date has been stipulated in the lease agreement (Coega Development Corporation, 2013a:26-28).

7.7   CONCLUDING REMARKS

In order for the CDC to influence the number of its signed investors, the CDC has to provide a more effective structure of the IPS. In order for the CDC IPS to be more effective, it needs to incorporate the determinants of FDI in the CDC IPS, as highlighted by the empirical results. Therefore special attention should be given to the various types of land available to investors as well as the incentives to investors locating at the CDC. The availability of good quality water should also be ensured and emphasised in the CDC IPS. The CDC IPS should also make provision for the negotiation of acceptable rent to be paid for the site allocated to the potential investor.

Furthermore, the IPS should highlight the exporting benefit that can be achieved when locating at the CDC by focusing on the incentives available for exporting as well as the facilities available to assist with exporting. The CDC IPS should also include the provision of electricity to their investors especially in light of the recent (2014) load shedding that took place.

In addition, the IPS needs to improve on the integration of investment promotion efforts from both the pre-investment and post-investment perspective. Finally, the CDC needs to identify the type and volume of FDI it wants to attract and retain in the Coega IDZ.

LIST OF SOURCES

African Economic Outlook. 2013. *Remittances.* [Online] Available:http://www.afri caneconomicoutlook.org/en/outlook/financial_flows/remittances/ [Accessed 29 October 2013].

Altman, M. 2006. Identifying Employment-Creating Sectors in South Africa: the role of services industries. *Development Southern Africa*, 23(5):627-647.

Amirahmadi, H. & Wu, W. 1995. *Export processing zones in asia.* California: University of California.

Amadasun, A.B. & Ojeifo, S.A. 2011. Foreign direct investment and sustainable development in sub-Saharan Africa in the 21st century: Challenges and interventions. *Insights into a changing world Journal*, 6(3):135-146.

Anyamele, O.D. 2010. Foreign Direct Investment, Exports, and Education on Economic Growth in sub-Saharan Africa. *International Research Journal of Finance & Economics*, (51):38-49.

Appleyard, D.R., Field, A.J. & Cobb, S.L. 2008. *International economics.* New York: McGraw-Hill Irwin.

Babbie, R.E. 1973. *Survey research methods.* Belmont: Wardsworth Publishing Company.

Bakhar, S.S., Bakhar, S. & Bakhar, S. 2013. The Relationship Between Country of Origin Brand Image and Customer Purchase Intensions*. Far East Journal of Pyschology & Business*, 2(10):25-47.

Balasubramanyam, V.N. 2001. *New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century.* [Online] Available: http://www.oecd.org/daf/inv/investmentstatisticsandanalysis/2407305.pdf [Accessed 5 December 2013].

Banerjee, A., Galiant, S., Levinsohn. J., McLaren, Z. & Woolard, I. 2008. Why has Unemployment Risen in the New South Africa? *Economics of Transition,* 16(4):717-718.

Barclay, L.A. 2000. Chapter 12: The future of foreign investment in the Commonwealth Caribbean. *Foreign Direct Investment in Emerging Economies*, 2(4): 203-213.

Bardy, R., Drew, S. & Kennedy, J. 2012. Foreign Investment and Ethics: How to contribute to Social Responsibility by doing Business in Less Developed

Countries. *Journal of Business Ethics*, 106(3):267-273.

Bartlett, C., Buzzell, R.D. & Quelch, J.A. 1992. *Global marketing management.* 2nd edition. Massachusetts: Addison-Wesley Publishing Company.

Bartlett, J.E., Kotrlik, J.W. & Higgins, C.C. 2001. Organisational research: Determining appropriate sample size in survey research. Information Technology, *Learning and Performance Journal*, 19(1):43-50.

Bein, B.C. & McCarthy, M.A. 2012. *Research methods and statics.* New Jersey: Pearson.

Bewayo, E.D. & Ekeledo, I. 2009. Export of manufactured goods challenges facing domestic firms in Sub-Saharan Africa in today's global economy. *Journal of International Business & Economic*, 9(4):147-155.

Biernacka-Ligieza, I. 2011. Small Land Promotion through Their Culture, Language and Individuality: The Importance of Culture Heritage for the Community Development. *Journal of Modern Accounting & Auditing*, 7(9):1004-1013.

Bloomstrom, M., Graham, E.M. & Moran, T.H. 2005. *Does foreign direct investment promote development.* Washington DC: Institute for International Economics.

Blumberg, B., Cooper, D.R. & Schindler, P.S. 2005. *Business research methods.* Berkshire: McGraw-Hill Education.

Bruce, H. & Jennifer, P. 2010. The limited role of small exchanges in economic development: A case study of Mozambique and Swaziland. *Development Southern Africa*, 27(2):205-224.

Bruce, T. 2004. *Exploratory and confirmatory factor analysis: understanding concepts and applications.* Washington DC: American Psychological Association.

Bodie, Z., Kane, A. & Marcus, A.J. 2009. *Investments.* 8th edition. Boston: McGraw-Hill-Irwin.

Brouthers, L.E., Gao, Y. & McNicol, J.P. 2008. Corruption and market attractiveness influences on different types of FDI. *Strategic Management Journal*, 6(29):673-680.

Burns, R.B. & Burns, R.A. 2008. *Business research methods and statistics using spss.* London: SAGE Publications Ltd.

Business Dictionary. 2013. *Foreign Exchange Earnings.* [Online] Available: http://www.businessdictionary.com/definition/foreign-exchange-earnings.html [Accessed 26 June 2013].

Casey, W.L. 2013. National Investment Promotion Policies and Foreign Direct Investment Flows. *International Journal of Business & Economics Perspectives*, 8(1):14-23.

CDC construction portfolio. 2013. *Infrastructure development construction projects.* Unpublished project portfolio. Port Elizabeth: Coega Development Corporation.

CIA World Fact Book. 2013. *Unemployment, youth ages 15-24.* [Online] Available: https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html [Accessed 7 July 2013].

City Press. 2013. *What is the Industrial Policy Action Plan?* [Online] Available: http://www.citypress.co.za/business/what-is-the-industrial-policy-action-plan/ [Accessed 25 September 2013].

Cheung, Y. & Qian, X. 2009. Empirics of China's Outward Direct Investment. *Pacific Economic Review*, 3(14):312-330.

Chrysostome, E.V. & Lupton, N.C. 2011. Characteristics and performance of Japanese Foreign Direct Investment in Africa. *International Journal of Economic Policy in Emerging Economies*, 1(4):54-77.

Coega Development Corporation. 2008. *Coega 2007/8 annual report.* Johannesburg: PriceWaterCoopers Inc.

Coega Development Corporation. 2009. *Coega 2009/10 annual report.* Johannesburg: PriceWaterCoopers Inc.

Coega Development Corporation. 2012. *Coega 2011/12 annual report.* Johannesburg: PriceWaterCoopers Inc.

Coega Development Corporation. 2013a. *Coega 2012/13 annual report.* Johannesburg: PriceWaterCoopers Inc.

Coega Development Corporation. 2013b. *Value add business management services.* [Online] Available: http://www.coega.co.za/Content3.aspx?objID=94 [Accessed 23 February 2013].

Collis, J. & Hussey, R. 2003. *Business research.* 2nd edition. New York: Palgrave Macmillan.

Collis, J. & Hussey, R. 2009. *Business research: A practical guide for undergraduate and post graduate students.* 3rd edition. London: Palgrave Macmillan.

Collis, J. & Hussey, R. 2014. *Business research: A practical guide for*

undergraduate and post graduate students. 4th edition. London: Palgrave Macmillan.

Cooper, D.R. & Schindler, P.S. 2003. *Business research methods.* 8th edition. New York: Brent Gordon.

Cooper, R.D. & Schindler, S.P. 2006. *Business research methods.* 9th edition. New York: McGraw-Hill/Irwin.

Coric, S. 2011. Significance and Characteristic of Effective Sales Promotion Management in Contemporary Market. *Zbornik Radova Ekonomskog Fakulteta u Istocnom Sarajevu*, 5:271-285.

Costello, A.B. & Osborne, J.W. 2005. Best Practices in Exploratory Factor Analysis: Four Recommendations for Getting the Most From Your Analysis. *Practical Assessment, Research & Evaluation,* 7(10):2-9.

Crowther, D. & Lancaster, G. 2009. *Research methods: a concise introduction to research in management and business consultancy.* 2nd edition. Oxford: Elsevier Butterworth-Heinemann.

Dah, F.K. & Khadijah, M.S. 2010. *The contribution of oil to the economic development of Ghana: the role of foreign direct investments (fdi) and government policies.* Department of Economics and Informatics: University West.

De Carvalho Chamon, M & Kremer, M.R. 2006. Asia Growth and African Development. *American Economic Review*, 96(2):400-404.

Demacon Studies. 2009. *Saldanha Development Zone Pre-Feasibility Analysis - Final Report October.* [Online] Available: http://www.saldanha bay.co.za/pages/IDZ_LED/IDZ/PreFeasibility%20Analysis%20Final%20Repo rt_Chapter%207.pdf [Accessed 17 April 2014].

Department of Economic Development, Environment Affairs and Tourism. 2010. *Coega IDZ.* [Online] Available: http://www.dedea.gov.za/Lists/COEGA/ AllItems.aspx [Accessed 4 November 2013].

Department of Trade and Industry. 2011. *Industrial Policy Action Plan Economic Sectors & Employment Cluster.* [Online] Available: https://www.environment. gov.za/sites/default/files/docs/ipap.pdf [Accessed 20 November 2013].

Department of Trade and Industry. 2013. *Industrial Policy Action Plan (Economic Sectors & Employment Clusters) IPAP 2013/14 – 2015/16.* [Online] Available: http://www.thedti.gov.za/parliament/IPAP.pd [Accessed 15 October 2013].

DG Enterprise & Industry. 2013. *Exchange of Good Practice in Foreign Direct Investment Promotion.* [Online] Available: http://ec.europa.eu/enterprise/ policies/industrial-competitiveness/monitoring-member-states/good-practice/files/ecorys-fdi_en.pdf [Accessed 27 November 2013].

Djokoto, J.G. 2012. The effect of Investment Promotion on Foreign Direct Investment inflow into Ghana. *International Business Research*, 5(4):46-57.

Dipenaar, A. 2009. What drives large South African corporations to invest in sub-Saharan Africa? *CEO's perspectives and implications for FDI policies. Natural Resource Forum*, 33(3):199-210.

Doole, I. & Lowe, R. 2001. *International marketing strategy.* London: Thompson Learning.

Doole, I. & Lowe, R. 2004*. International marketing strategy, analysis, development and implementation.* London: Thompson Learning.

Dorrian, P. 2005. *The making of south africa inc. Unblocking South Africa's global potential.* Cape Town: Zebra Press.

Dornbusch, R., Fischer, S. & Startz, P. 2004. *Macroeconomics.* 9th edition. New York: McGraw.

Dunning, J.H. 1977. Trade, Location of Economic Activity and the Multinational Enterprise. *The international allocation of economic activity*, 47(8):395-418.

Dunning, J.H. 1988. The Eclectic Paradigm of International Production: Are statement and some possible extentions. *Journal of International Business Studies*, 1(13):1-31.

Dunning, J.H. 2001. The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. *Journal of the Economics of Business*, 2(7):173-190.

Du Toit, R. 2005. Employment Creation through the Provision of Social Development Services: exploring the options. *Development Southern Africa*, 22(5):657-671.

Dyakov, I. 2009. African hunt for investment: any chance for success? *Perspectives of Innovations, Economics & Business*, 2(2):63-66.

Eastern Cape Development Corporation. 2012. *The Coega IDZ.* [Online] Available: http://www.ecdc.co.za/ecdc/the_idzs/the_coega_idz [Accessed 4 November 2013].

Emmanuel, C. 2008. How Effective are Fiscal Incentives to Attract FDI to sub-Saharan Africa? *Journal of Developing Areas*, 42(1):135-153.

Emmanuel, C. 2012. Political and Institutional impediments to foreign direct investment to sub-Saharan Africa. *Thunderbird International Business Review,* 54(4):469-477.

Engineering News. 2012. *Coega IDZ attracted investments worth R4.1bn in 2012.* [Online] Available: http://www.engineeringnews.co.za/article/coega-idz-attracted-investments-worth-r41bn-in-2012-2012-11-21 [Accessed 4 November 2013].

Ephraim, O. & Philemon, O. 2011. A Cost-Benefit Analysis of China's Trade Relations with sub-Saharan Africa. *Chinese Business Review,* 10(9):734-738.

Ernst & Young. 2011. *It's time for Africa – EY's 2011 Africa attractiveness survey.* [Online] Available: http://www.ey.com/ZA/en/Issues/Business-environment/ 2011- Africa-attractiveness-survey [Accessed 25 July 2013].

Faeth, S. 2009. Determinants of Foreign Direct Investment – A tale of nine theoretical models. *Journal of Economic Surveys*, 23:171-184.

Fonchomnyo, D.C. 2012. The Altruistic Motive of Remittances: A panel data analysis of economics in sub-Saharan Africa. *International Journal of Economics & Finance,* 4(10):192-200.

Franco, C., Rentocchini, F. & Marzetti, G.V. 2010. Why do Firms Invest Abroad? An Analysis of the Motives Underlying Foreign Direct Investments. *IUP Journal of International Business Law*, 1(9):42-47.

Ge, W. 2012. Special Economic Zones and Technological Learning: An analytical framework. *Economics & Finance Review*, 2(3):1-15.

Gill, J. & Johnson, P. 1997. *Research methods for managers.* London: Paul Chapman Publishing Ltd.

Ginevicius, R. & Simelyte, A. 2011. The theoretical insights of the states promotion policy on fdi. *Business: theory & practice*, 3(12):225-235.

Gotsi, M., Lopez, C. & Andriopoulos, C. 2011. Building country image through corporate image: exploring the factors that influence the image transfer. *Journal of Strategic Marketing*, 3(19):255-272.

Grebe, A. 2013. *Department of Trade and Industry.* Unpublished Quarterly Report. Port Elizabeth: Coega Development Corporation.

Hair, J.F., Anderson, R.E., Tatham, R.L. & Black, W.C. 1998. *Multivariate data analysis with readings.* New Jersey: Prentice Hall.

Hair, J.F., Black, W., Babin, B.J. & Anderson, R.E. 2013. *Multivariate data analysis.* Essex: Pearson New International.

Hair, J., Money, A.H., Samouel, P. & Page, M. 2007. *Research methods for business.* Chichester: John Wiley & Sons Ltd.

Harding, T. & Jarvorcik, B.S. 2011. Roll out the red carpet and they will come: Investment Promotion, Information Asymmetries and FDI inflows. *Economic Journal*, 121:1445-1447.

Harri, R. 2012. Estimating the Production Efficiency of U.S. Foreign Direct Investment. *Managerial & Decision Economics*, 4(33):273-279.

Heese, K. 2000. Foreign direct investment in South Africa (1994-9)-Confronting globalisation. *Development Southern Africa,* 17(3):389-400.

Howells, P. & Bain, K. 2005. *The economics of money, banking and finance .*3rd edition. Essex: Pearson Education Limited.

Huggins, H. 2001. Embedding inward investment through workforce development: experiences in the Wales Environment and Planning. *Government Policy*, 19(6):833-848.

Hussey, J. & Hussey, R. 1997. *Business research, a practical guide for undergraduates and post graduate students.* London: Macmillan Press.

Hymer, S.H. 1976. *The international operations of national firms: A study of direct investment.* Cambridge, MA: MIT Press.

IBM Corporation. 2013. *Competitive location benchmarking analysis 2013.* Unpublished Investment Promotion Workshop Sales Manual. Port Elizabeth: Coega Development Corporation.

Investment Finance Corporation. 2010*. IFC Investment Generation in Haiti.* [Online] Available:http://www.ifc.org/wps/wcm/connect/5da8eb004755e0449d53bf37b 5ac3532/IC_Investment_Generation_Haiti_FEB11_EN.pdf?MOD=AJPERES [Accessed 18 November 2013].

Jain, V. & Raj, T. 2013. Evaluating the Variables Affecting Flexibility in FMS by Exploratory and Confirmatory Factor Analysis, *Global Journal of Flexible Systems Management,* 14(4):181-193.

Johansson, J.K. 2006. *Global marketing, foreign entry, local marketing and global management.* 4th edition. New York: McGraw-Hill/Irwin.

Johnson, A.R. 2010. Rethinking Bilateral Investment Treaties in Sub-Saharan Africa. *Emory Law Journal*, 7(59):919-966.

Johnson, J.A., Whitaker, D. & Johnson, D.G. 2001. *Statistical thinking for managers.* Florida: CRC Press LLC.

Johnston, S. & Beaton, H. 1998. *Foundations of international marketing.* London: International Thomson Press.

Jojo, B. 2011. *Coega Development Corporation presentation to staff.* Unpublished financial presentation. Port Elizabeth: Coega Development Corporation.

Jun-Kwon, P. & Valentine, V. 2005. *Free trade zone and port hinterland development.* New York: United Nations Publication.

Keller, G. & Warrack, B. 2003. *Statistics for management and economics.* Pacific Grove: Thompson Learning Inc.

Kesic, T., Rajh, S.P. & Kraljevic, S. 2003. Country image and product brand image as a competitive marketing strategy factors. *Fifth International Conference on "Enterprise in Transition":* Croatia: University of Zagreb.

Kim, H., Park, J. & Jin-O, K. 2008. Accurate estimation of Target amounts using expanded bass model for demand-side, *AIP Conference Proceedings.* 1(1052):105-287.

Kingdon, G.G. & Knight, J. 2004. Race and the Incidence of Unemployment in South Africa. *Review of Development Economics*, 8(2):198-222.

Kleynhans, E.P.J. & Zwedala, S. 2012. The contribution of FDI, Technology and R&D to spillovers in Industrial Development: A South African Firm-Level Investigation. Managing Global Transitions. *International Research Journal*, 10(3):341-359.

Koo, J. 2007. Determinants of localised Technology Spillovers: Role of Regional and Industrial Attribute. *Regional Studies*, 41(7):995-1004.

Koyame-Marsh, R. 2012. The impact of workers' remittances on economic growth: evidence from ecowas countries. *Journal of Third World Studies*, 29(2):111-130.

Kuncic, A. & Svetlicic, M. 2011. Who's Who in Foreign Direct Investment Promotion? *Eastern European Economics*, 3(49):66-88.

Kwaku Kyem, P.A. 2012. Is ICT the panacea to Sub-Saharan Africa's development problems? Rethinking Africa's contentious engagement with the global information society. *Progress in Development Studies*, 12(2):231-244.

Lamb, C.W., Hair, J.F., McDaniel, C., Boshoff, C. & Terblanche, N.S. 2004. *Marketing.* 2nd edition. New York: Oxford University Press.

Law Dictionary. 2012. *Foreign Exchange Earnings*. [Online] Available: http://thelawdictionary.org/foreign-exchange-earnings/ [Accessed 26 June 2013].

Lezitizia, M. & Gorgio, P. 2011. China's impact on Intra-African Trade. *Chinese Economy*, 44(4):75-91.

Lin, C., Chen, K. & Rau, H. 2010. Exchange Rate Volatility and the timing of Foreign Direct Investment: Market Seeking versus Export – Substitution. *Review of Development Economics*, 3(14):466-481.

Louise, T.D. & Clovis, D. 2012. Workers' Remittances and Economic Development in Sub-Saharan African Countries. *International Research Journal of Finance & Economics*, (88):24-38.

Louis, T.W. & Alvin, G.W. 1990. Marketing a country: promotion a tool for attracting foreign investment. Washington DC: The International Finance Corporation and the Multilateral Investment Guarantee Agency.

Lubisi, M. 2010. *Business Solutions Assessment*. Unpublished Commercial standard procedure. Port Elizabeth: Coega Development Corporation.

Lubisi, M. 2012. *Operational investors in idz presentation to business unit staff.* Unpublished commercial presentation. Port Elizabeth: Coega Development Corporation.

Lunn, J. 1980. Determinants of US direct investment in the EEC: Further evidence. *European Economic Review*, 13(4):93-101.

Managi, S. & Bwalya, S.M. 2010. Foreign direct investment and technology spillovers in Sub-Saharan Africa. *Applied Economics Letters*, 17(6):605-608.

Mangra, M. G., Sperdea, N. M., Celenkovic, L. & Cojocara, C. 2011. China's special economic zones and the current global economic downturn. *Economics, Management & Financial Markets*, 6(4):132-137.

Markert, L. R. 1993. *Contemporary technology: Innovations, issues, and perspectives*. Illinois: Goodheart-Willcox.

Marcias. J. & Massa, I. 2010. The Global Financial Crisis and sub-Saharan Africa: The effects of slowing private capital inflows on growth. *African Development Review,* 22(3):366-377.

Mehlwana, L. 2013. Businesses get a chance to show skills. *Daily Sun (Eastern Cape),* 13 November, 15.

Meyer, K.E., Estrin, S., Bhaurik, S.K. & Peng, M.K. 2009. Institutions, resources,

and entry strategies in emerging economies. *Strategic Management Journals*, 1(30):61-80.

Mexico Busines Forecast Report. 2006. Chapter 3: Business Environment. *Country Report,* 19-21.

Moravcsik, A. 2010. *Liberal theories of international relations: a primer.* New Jersey: Princeton University Press.

National Development Plan Vision for 2030. 2011. *Foreword.* [Online] Available: http://www.npconline.co.za/medialib/downloads/home/NPC%20National%20 Development%20Plan%20Vision%202030%20-lo-res.pdf [Accessed 20 November 2013].

Nel, L. & Rogerson, C.M. 2013. Special Economic Zones in South Africa: Reflections from International Debates. *Urban Forum,* 24 (2):205-217.

Nelson Mandela Bay Council. 2013. Coega Secured Investments Worth R1.39 Billion in 2012/13. *Metro Minutes,* 3(198):1.

Ndikumana, L. & Boyce, J.K. 2010. Measurement of Capital Flight: Methodology and Results for Sub-Saharan African Countries. *African Development Review,* 22(4):471-481.

Ndikumana, L. & Verick, S. 2008. The Linkages between FDI and Domestic Investment: unravelling the developmental impact of foreign direct investment in sub-saharan Africa. *Development Policy Review*, 26(42):713-726.

Nicholson, W. & Snyder, C. 2007*. Theory and application of intermediate microeconomics.* 10th edition. Mason: Thompson South-Western.

Owusu-Antwi, G. 2012. Determinant of Foreign Direct Investment: Is it a better prescription for economic growth in Africa? *International Business & Economies Research Journal*, 11(7):757-770.

Oxford Dictionaries. 2013. *Definition of Technology Transfer in English.* [Online] Available: http://oxforddictionaries.com/definition/english/technology-transfer [Accessed 26 September 2013].

Oyeranti, G.A., Babantunde, M.A. & Ongunkola, E.O. 2011. An analysis of China-Nigeria investment relations. *Journal of Chinese Economic and Foreign Trade Studies,* 3(4):183-199.

Park, K.H. 2003. Patterns and Strategies of Foreign Direct Investment: the case of Japanese firms. *Applied Economics*, 16(35):1739-1745.

Pereira, N. & Calegario, C. 2013. Foreign Direct Investment Strategies Effects on the Brazil's Trade Balance: A causality analysis. *GCG: Revista de Globilizacion, Competitividad & Gobernabilidad*, 1(7):73-81.

Polonsky, M.J. & Waller, D.S. 2011. *Designing and managing a research project.* 2nd edition. California: SAGE Publications, Inc.

Port Elizabeth Industry. 2012. *Port Elizabeth.* [Online] Available: http://www.portelizabethforever.co.za/port-elizabeth-industry.html [Accessed 19 November 2013].

Pouris, A. & Pouris, A. 2011. Patents and economic development in South Africa: Managing intellectual property rights. *South African Journal of Science,* 107(11):24-33.

Radulescu, M. & Pociovălişteanu, D. 2012. Foreign Investment: A way of Job Creation in Romania during the crisis period. *Young Economists Journal*, 9(19):109-120.

Republic of South Africa. 2013 Department of Trade and Industry 2013. *Special Economic Zones (SEZ) Bill 2013*.

Riley, M., Wood, R.C., Clarke, M.A., Wilkie, E. & Szivas, E. 2000*. Research writing and dissertations in business and management.* High Holburn: Thompson.

Rogerson, C.M. 2009. *The Locational Behaviour of Foreign Direct Investment: Evidence from Johannesburg*. South Africa, 20: 415-435.

Rolfe, R.J. & Woodward, D.P. 2004. Attracting Foreign Investment through privatisation. *Journal of African Business*, 5(1):5-27.

SA targets 5-million new jobs by 2020. 2010. *Bua News*. [Online] Available: http://www.southafrica.info/business/economy/policies/growth-241110.htm [Accessed 15 April 2014].

Sawalha, N., Mazouz, A. & Pellet, P. 2013. Foreign Direct Investment Inflows and Determinants in Selected Developed, Developing and Underdeveloped countries with Limited Resources. *International Journal of Business & Economics Perspectives*, 8(1):76-92.

Schultz, D. & Schultz, S.E. 2002. *Psychology & work today.* 8th edition. New Jersey: Pearson Education.

Shimp, T. 1989. *Promotion management and marketing communications.* 2nd edition. Chicago: Saunders College Publishing.

Shimp, T. 1990. *Promotion management and marketing communications.* 3rd

edition. Chicago: Saunders College Publishing.

Simayi, S. 2013. *Analysis on the functionality of CDC governance committees/structures (2012/13).* Unpublished CEO's Office Report. Port Elizabeth: Coega Development Corporation.

Simeltye, A. 2012. The Role of Investment Promotion in Attracting FDI: Evidence from the Baltic States. *Economics & Business*, 22(1):174-180.

Simkins, C. 2004. Employment and unemployment in South Africa. *Journal of Contemporary African Studies*, 22(2):253-278.

Smith, J. 2002. Creating and enhancing financial incentives for stakeholders within Industrial Development Zones. *Butterworths Property Law Digest*, 4(3):3-11.

Sonny, N. & Khaled, E. 2012. Foreign direct investment: Technology gap effects on international business capabilities of Sub-Saharan Africa. *Thunderbird International Business Review*, 54(6):945-950.

South African Revenue Service. 2010. *Industrial Development Zone.* [Online] Available: http://www.sars.gov.za/home.asp?pid=44747 [Accessed 13 August 2012].

Special Economic Zones Bill 2013. 2013. *Special Economic Zones.* [Online] Available: www.dti.gov.za [Accessed 25 September 2013].

Statssa. 2014. *National and provincial labour market: Youth.* [Online] Available: http://beta2.statssa.gov.za/publications/P02114.2/P02114.22014.pdf [Accessed 17 September 2014].

Straton, A. 2013. *No fee driver training programme yields pass rate success.* [Online] Available: http://mype.co.za/new/2013/11/no-fee-driver-training-programme-yields-pass-rate-success/#ixzz2kyiiIIEA [Accessed 20 November 2013].

Strauss, A. & Corbin, J. 1987. *Basics of qualitative research techniques and procedures for developing grounded theory.* Mason OH: Thomson South Western.

Struwig, F.W. & Stead, G.B. 2001. *Planning, designing and reporting research.* Cape Town: Pearson.

Struwig, F.W. & Stead, G.B. 2013. *Planning, designing and reporting research.* 2nd edition. Cape Town: Pearson.

Taborda, J. 2014. *South African Unemployment Rate.* [Online] Available: http://www.tradingeconomics.com/south-africa/unemployment-rate

[Accessed 22 April].

Tahir, R. & Larimo, J. 2004. Understanding the location strategies of the European Firms in Asian Countries. *Journal of America Academy of Business*, 1(5):102-109.

Tang, V. 2006. *Zoning in on South Africa's Industrial Development Zones*. [Online] Available:http://www.tips.org.za/files/Tang_Final_Zoning_in_on_SAfrica_IDZs _24_Oct_2008.pdf [Accessed 22 April 2014].

Tavakol, M. & Dennick, R. 2011. Making sense of Cronbach's Alpha. *International Journal of Medical Education,* 2(3):53-55.

Tiya, K. 2008. *Five Year Business Development Strategy* 2008/9-2012/13. Unpublished Business Development Strategic Plan. Port Elizabeth: Coega Development Corporation.

The three types of FDI explained. 2007. *The Middle East*. March, 376:34.

Tseng, C. 2009. Technology development and knowledge spillovers in Africa: Evidence using patent and citation data. *International Journal of Technology Management*, 45(2):50-61.

UNCTAD. 2007. *World Investment Report.* [Online] Available: http://unctad.org/en/pages/PublicationArchive.aspx?publicationid=724. [Accessed 18 November 2013].

UNCTAD. 2012. *Investment Promotion Handbook for Diplomats*. [Online] Available: http://unctad.org/en/Docs/iteipc20071_en.pdf [Accessed 18 November 2013].

Van Parys, S. & James, S. 2013. The effectiveness of tax incentives in attracting investment: Panel data evidence from the CFA Frac Zone*. International Tax and Public Finance*, 1(1):400-429.

Verena, T. 2011. Exporting and the Wage Premium in Foreign Firms in Africa: Differential Effects across Export Destinations*. Research Journal of International Studies*, 19:26-42.

Vilakazi, A. 2013. *Coega scoops top 2013 performing agency award.* Unpublished media release. Port Elizabeth: Coega Development Corporation.

Wadhaw, K. & Reddy, S.S. 2011. Foreign Direct Investment into Developing Asian Countries: The role of Market Seeking, Resource Seeking and Efficiency Seeking Factors. *International Journal of Business & Management*, 11(6):219-226.

Wang, J., Cheng, S. & Confei, H. 2011. What attracts foreign direct investment in

China's real estate development? *Annals of Regional Science*, 46(2):267-293.

Warner, M. 1997. *The concise international encyclopaedia of business & management*. Boston: Thompson Business Press.

Wells, L.T. & Winnt, A.G. 2000. *Marketing a country, Occasional Paper, (13). Foreign Investment Advisory Service*. US.

Western Economic Diversification Canada. 2012. *Overview of Free Trade Zones*. [Online] Available: http://www.wd.gc.ca/eng/11140.asp [Accessed 29 October 2013].

Yazini, F. 2009. South Africa's governance challenges: Assessing the South Africa-China mineral case. *Contemporary Politics*, 15(4):461-477.

Yuari, N.M. 2011. Foreign Direct Investment and Manufacturing Export in Nigeria. *IBA Business Review*, 1(6):51-55.

Zeiss, A. 2011. *Business solutions process*. Unpublished Business Development standard procedure. Port Elizabeth: Coega Development Corporation.

Zhang, A. 2011. The transformation of media and of the National Image of China. *China Media Report Overseas*, 4(7):65-71.

Zikmund, W.G. 2003. *Business research methods*. United States: Thomson South Western.

Zikmund, W.G., Babin, B.J., Carr, J.C. & Griffin, M. 2010. *Business research methods*. 8th edition. Canada: South Western.

ANNEXURE A: COVER LETTER

**Nelson Mandela
Metropolitan
University**

f o r   t o m o r r o w
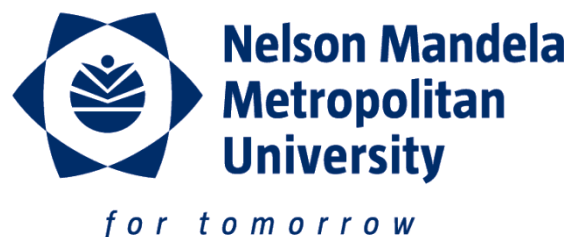
**Unit for Applied Business Management
Summerstrand South Campus
DEPARTMENT OF BUSINESS MANAGEMENT**
Tel. +27 (0)41 5042203/04 Fax. +27 (0)41 504 4840

June-July 2014

Dear Respondent

I am a Master's student at the Nelson Mandela Metropolitan University (NMMU) conducting a research study in the field of Business Management on the following topic:

INVESTMENT PROMOTION: A COEGA DEVELOPMENT CORPORATION (CDC) PERSPECTIVE

The aim is to investigate the influence of the determinants of Foreign Direct Investment (FDI) on the Coega Development Corporation (CDC) Investment Promotion Strategy (IPS) and how the CDC IPS influences the number of signed investors. The increasing of number of signed investors by the CDC would further advance the strategic objectives of the Coega IDZ of attracting FDI, facilitation of foreign exchange earnings through local exports, technology transfer and most importantly job creation within the Nelson Mandela Bay Metropolitan (NMBM).

It would be greatly appreciated if you could respond to the following questions so as to assist in the completion of the study. Please complete the attached questions as they apply to yourself and note participation to this study is anonymous, voluntary and you can withdraw at any stage.

All information will be treated in the strictest confidence. The questionnaire should take about 15 minutes to complete.

Your assistance will be greatly appreciated. If you have any queries, please feel free to contact us.

Yours sincerely.

T Maduna

Thembinkosi Maduna (RESEARCHER)

N Oosthuizen   *J Krüger*

Mrs Nadine Oosthuizen (SUPERVISOR)   Dr Janine Krüger (CO-SUPERVISOR)

ANNEXURE B: SAMPLE QUESTIONNAIRE

SECTION A: COMPANY BIOGRAPHICAL INFORMATION
Please indicate your response by means of a cross (X).

1. **Industry participation**

Agro processing	1
Automotive industry	2
Business processing outsourcing	3
Chemicals	4
Energy (oil and gas)	5
Financial, consultancy and business services	6
General manufacturing	7
Green energy	8
Logistics	9
Metal related Industry	10
Shipping or related activities	11
Training (skills development)	12
Utilities	13
Other (Please Specify):	14

2. **Local/Foreign company**

South African	1
Non-South African	2

3. **Type of investment by company**

Foreign Direct Investment (FDI)	1
Domestic Investment	2

4. **Main type of trade**

Exporter	1
Importer	2
Exporter and Importer	3
Domestic	4
Other (Please Specify) :	5

5. **Country of origin**

Belgium	1
China	2
France	3
Germany	4
Holland	5
India	6
South Africa	7
Spain	8
Sweden	9
Switzerland	10
Other (Please Specify):	11

6. **Long-term business objectives**

Market growth	1
Cost efficiency	2

Close proximity to a scarce resource e.g. natural resource	3
Mergers, acquisitions and joint ventures	4
Other (Please Specify):	5

7. **Is the company operational?**

Yes	1
No	2

7.1 **If yes, time period in operation?**

1 month –1 year	1
1 – 2 years	2
2 – 3 years	3
3 – 4 years	4
4 – 5 years	5
Other (Please Specify):	6

7.2 **If no, expected time until operational?**

1 month –1 year	1
1 – 2 years	2
2 – 3 years	3
3 – 4 years	4
4 – 5 years	5
Other (Please Specify):	6

SECTION B: STATEMENTS RELATING TO CDC

Please answer the following questions based on your own perceptions. There are no right or wrong answers. Indicate to what extent you **agree** with the following statements. (1) Strongly Disagree, (2) Disagree, 3 (Neutral), (4) Agree, (5) Strongly Agree.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The company has future plans to increase exports in the future.	1	2	3	4	5
2	CDC provides adequate **pre-investment** services such as environmental impact assessment, business registrations, work permits, recruiting operational labour etc.	1	2	3	4	5
3	The number of signed investors by the CDC has influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
4	The physical location of land received was suitable for the company's purpose.	1	2	3	4	5
5	The employment incentive available influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
6	The rental paid on land received is competitive.	1	2	3	4	5
7	CDC provides investment information timeously.	1	2	3	4	5
8	The adjacent harbour to the IDZ/Park is ideal for exporting.	1	2	3	4	5
9	There is adequate security in the IDZ/Park.	1	2	3	4	5
10	The price of electricity is competitive.	1	2	3	4	5
11	Customers can be reached with ease from the IDZ/Park.	1	2	3	4	5
12	The domestic exchange rate influences exporting.	1	2	3	4	5
13	The corporate income tax rate incentive of 15% instead of 28% influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
14	The expected benefits of locating in the IDZ/Park have been realised.	1	2	3	4	5
15	The building allowance available influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
16	Staff transport within the IDZ/Park is available.	1	2	3	4	5

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
17	The type of investors in terms of sector e.g. chemicals, manufacturing etc. has influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
18	IDZ/Park incentives should be administered provincially.	1	2	3	4	5
19	The current incentives offered at the Coega IDZ/Park are adequate	1	2	3	4	5
20	The type of investors in terms of industry e.g. cement plant, warehousing etc. has influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
21	CDC has a clear unique selling proposition.	1	2	3	4	5
22	The incentive package offered influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
23	Cost of acquiring the building (rental or construction cost) is competitive.	1	2	3	4	5
24	The water quality within the IDZ/Park is satisfactory.	1	2	3	4	5
25	The availability of water is adequate.	1	2	3	4	5
26	The size of land received is adequate for the company's purpose.	1	2	3	4	5
27	To export at a lower tariff than prescribed by SARS made the location of the company in the IDZ/Park more attractive.	1	2	3	4	5
28	The site allocation process at the CDC is satisfactory.	1	2	3	4	5
29	I would recommend the CDC to any potential investor.	1	2	3	4	5
30	The availability of electricity is adequate	1	2	3	4	5
31	CDC has an adequate investor outreach programme.	1	2	3	4	5
32	Suppliers can be reached with ease from the IDZ/Park.	1	2	3	4	5
33	The monetary value invested by the company reflects the confidence the company has in the IDZ/Park.	1	2	3	4	5
34	The CDC investment promotion strategy has attracted a variety of industries to the Coega IDZ.	1	2	3	4	5
35	The price of water is competitive.	1	2	3	4	5
36	The IDZ/Park is ideal for exporting goods to foreign markets.	1	2	3	4	5
37	The roads in the IDZ/Park are adequate.	1	2	3	4	5
38	The site location and selection process administered by the Spatial Development Unit are satisfactory.	1	2	3	4	5
39	The availability of customs controlled area influenced the decision to locate in the Coega IDZ/Park.	1	2	3	4	5
40	IDZ/Park incentives should be administered locally.	1	2	3	4	5
41	The site selection process at the CDC is satisfactory.	1	2	3	4	5
42	The CDC Business Development team promotion efforts influence the final investment decision to locate in the IDZ/Park.	1	2	3	4	5
43	CDC provides adequate **post-investment** services such as SHEQ, Security, Finance, Facilities Management, Investor Services etc.	1	2	3	4	5
44	The manufacturing industry is the main driver for exporting.	1	2	3	4	5
45	The CDC Commercial team efforts influence the final investment decision to locate in the IDZ/Park.	1	2	3	4	5
46	The lobbying by the CDC to the Department of Trade and Industry (DTI) for incentives is adequate.	1	2	3	4	5
47	CDC buildings are well maintained.	1	2	3	4	5
48	CDC promotion efforts influenced the decision to locate in the Coega IDZ.	1	2	3	4	5
49	The IDZ/Park fosters a conducive environment for exporting.	1	2	3	4	5
50	The CDC investment promotion strategy has attracted a variety of sectors to the Coega IDZ.	1	2	3	4	5
51	It is beneficial to locate in the IDZ/Park as compared to non-IDZ/Park locations.	1	2	3	4	5

THANK YOU VERY MUCH FOR YOUR PARTICIPATION

ANNEXURE C: ETHICS CLEARANCE

Nelson Mandela Metropolitan University

for tomorrow

ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESES

Please type or complete in black ink

FACULTY: Business and Economic Sciences

SCHOOL/DEPARTMENT: Business Management

I, (surname and initials of supervisor) N. Oosthuizen

the supervisor for (surname and initials of candidate) T. Maduna.

_____ (student number) 206 034 229

a candidate for the degree of M Com

with a treatise/dissertation/thesis entitled (full title of treatise/dissertation/thesis):

Investment Promotion: A Coega Development Corporation Perspective

considered the following ethics criteria *(please tick the appropriate block)*:

	YES	NO
1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?		✓
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		✓
2.1 Are subjects/participants/respondents of your study:		
(a) Children under the age of 18?		✓
(b) NMMU staff?		✓
(c) NMMU students?		✓
(d) The elderly/persons over the age of 60?		✓
(e) A sample from an institution (e.g. hospital/school)?		✓
(f) Handicapped (e.g. mentally or physically)?		✓

3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)		✓
3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?		✓
4. Will the participant's privacy, anonymity or confidentiality be compromised?		✓
4.1 Are you administering a questionnaire/survey that:		
(a) Collects sensitive/identifiable data from participants?		✓
(b) Does not guarantee the anonymity of the participant?		✓
(c) Does not guarantee the confidentiality of the participant and the data?		✓
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		✓
(e) Will create doubt whether sample control measures are in place?		✓
(f) Will be distributed electronically via email (and requesting an email response)?		✓

Note:
- If your questionnaire **DOES NOT** request respondents' identification, is distributed electronically and you request respondents to return it *manually* (print out and deliver/mail); **AND** respondent anonymity can be guaranteed, your answer will be NO.
- If your questionnaire **DOES NOT** request respondents' identification, is *distributed via an email link and works through a web response system (e.g. the university survey system); AND* respondent anonymity can be guaranteed, your answer will be NO.

Please note that if **ANY** of the questions above have been answered in the affirmative **(YES)** the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.

and hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.

N. Oosthuizen *(signatures)*   04 / 7 / 2014

SUPERVISOR(S)   **DATE**

(signature)   04/07/2014

HEAD OF DEPARTMENT   **DATE**

(signature)   04/07/2014

STUDENT(S)   **DATE**

Please ensure that the research methodology section from the proposal is attached to this form.