A FOREIGN DIRECT INVESTMENT MODEL FOR TOURISM PROPERTY ACQUISITION

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Statements and suggestions made in this thesis are those of the author and should not be regarded as those of the North-West University

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SUMMARY

Foreign direct investment is a much debated topic worldwide. Without foreign direct investment, the Tourism Industry of South Africa cannot achieve its full potential. Therefore, the role of foreign direct investment cannot be disregarded, for it can significantly contribute to a country's tourism and economic growth.

This leads to the primary research goal of this study, *viz.* to develop a foreign direct investment model for the South African Tourism Industry to so as to successfully attract and sustain foreign direct investment. In order to achieve this aim, a literature study and an empirical study was conducted. For the empirical research, a quantitative research method was used. The target population was identified by means of a convenience sampling method. One hundred and fifteen questionnaires were handed out to various estate agencies in South Africa that had sold property to foreign investors. These estate agents were situated in the Western Cape, Eastern Cape, KwaZulu Natal, Limpopo province, Gauteng as well as Mpumalanga.

Four objectives were derived from the primary research goal.

The first objective was to establish what it is that South Africa is able to offer to foreign investors. It was found that these opportunities exist in infrastructure, suprastructures, spatial development initiatives as well as conservation areas.

The second objective was to establish the determinants and a country's tourism's characteristics that will influence foreign direct investments. It was found that both macro- (openness and exports, exchange rates, inflation rates, budget deficits, investment and infrastructure, and political instability) and micro-determinants (market size and growth, labour costs, host government policies, tariff and trade barriers and the product life cycle), as well as the tourism characteristics, the components of a tourism product, services, and the tourism growth potential of a country positively influence foreign direct investment to a host country.

The third objective was to determine the role of the South African government and institutions with respect to foreign direct investment. This was done through a literature study and a quantitative analysis. It was found that a country's success in attracting foreign direct investment is largely dependant on the government of a country, i.e. its policies as well as legislation, strategies to attract foreign direct investment as well as incentives that the government of a country offers to

prospective investors. Role players such as institutions (SA Tourism, International Marketing Council) as well as the government should liaise with estate agents in order to enhance foreign direct investment. Lastly, the South African government should ensure political and economical stability.

The fourth objective was to make recommendations regarding foreign direct investment in the South African Tourism Industry. It was recommended that the South African government should address the crime factor in South Africa. The high crime rate in South Africa influences foreign investors negatively. More police officials should be trained and harsher punishments should be bestowed on offenders. It is also recommended that foreign direct investment should be encouraged to ensure tourism development in South Africa. In order for South Africa to remain a global player in this field, as well as to sustain tourist numbers, the country's tourism policy is to be government-led, private sector driven and community-based. Therefore, tourism cannot fully develop without foreign direct investment.

The study also indicated that there is a strong correlation between the foreign tourists who visit South Africa and the investments that took place; therefore it was recommended that the model developed should be implemented to ensure sustainable foreign direct investment in the South African Tourism Industry.

Key words: Foreign direct investment, tourism, foreign direct investment determinants, tourism characteristics, government policy and legislation and institutions.

OPSOMMING

Direkte buitelandse investering is 'n onderwerp wat wêreldwyd gedebatteer word. Die Suid-Afrikaanse toerismebedryf kan nie sonder direkte buitelandse investering ontwikkel nie. Die rol van direkte buitelandse investering kan daarom nie buite rekening gelaat word nie, aangesien dit 'n beduidende bydrae kan lewer tot die groei van 'n land se toerisme en ekonomie.

Dit lei tot die primêre navorsingsdoel van hierdie studie, naamlik om 'n model vir direkte buitelandse investering te ontwikkel vir die Suid-Afrikaanse toerismebedryf, sodat direkte buitelandse investering suksesvol gelok en volgehou kan word. Om hierdie doel te bereik is 'n literatuurstudie, sowel as 'n empiriese studie, uitgevoer. 'n Kwantitatiewe navorsingsmetode is vir die empiriese navorsing gebruik. Die teikenbevolking is deur middel van 'n geriefsteekproefmetode geïdentifiseer. Honderd-en-vyftien vraelyste is uitgedeel aan verskeie eiendomsagentskappe in Suid-Afrika wat eiendom aan buitelandse beleggers verkoop het. Hierdie eiendomsagente was geleë in die Wes-Kaap, Oos-Kaap, KwaZulu-Natal, Limpopo, Gauteng en Mpumalanga.

Vier doelwitte het uit die primêre navorsingsdoel gespruit:

Die eerste doelwit was om vas te stel wat Suid-Afrika aan buitelandse beleggers kan bied. Daar is gevind dat daar geleenthede bestaan in infrastruktuur, suprastrukture, ruimtelike ontwikkelingsinisiatiewe en bewaringsgebiede.

Die tweede doelwit was om vas te stel wat die determinante, asook 'n land se toerisme-eienskappe, is wat direkte buitelandse investerings sal beïnvloed. Daar is gevind dat makrodeterminante (openheid en uitvoere, wisselkoerse, inflasiekoerse, begrotingstekorte, investering en infrastruktuur, asook politieke onstabiliteit) en mikrodeterminante (markgrootte en -groei, arbeidskoste, beleidsrigtings van 'n gasheerregering, tarief- en handelversperrings en die produk se lewensiklus), sowel as die toerisme-eienskappe, komponente van 'n toerismeproduk, dienste en die groeipotensiaal van 'n land se toerisme, direkte buitelandse investering in 'n gasheerland positief beïnvloed.

Die derde doelwit was om die rol van die Suid-Afrikaanse Regering en instellings in verband met direkte buitelandse investering vas te stel. Dit is deur middel van 'n literatuurstudie en kwantitatiewe ontleding gedoen. Daar is gevind dat 'n land se sukses in die lok van direkte buitelandse investering grootliks afhanklik is van die land se regering, met ander woorde sy

beleidsrigtings sowel as wetgewing, strategieë vir die lok van direkte buitelandse investering en aansporings wat 'n land se regering aan voornemende beleggers bied. Rolspelers soos instellings (SA Toerisme asook die Internasionale Bemarkingsraad) en die Regering moet met eiendomsagente skakel om direkte buitelandse investering te verhoog en die Suid-Afrikaanse Regering moet politieke en ekonomiese stabiliteit verseker.

Die vierde doelwit was om aanbevelings te maak in verband met direkte buitelandse investering in die Suid-Afrikaanse toerismebedryf. Daar is aanbeveel dat die Suid-Afrikaanse Regering die misdaadfaktor in Suid-Afrika moet aanpak. Die hoë misdaadsyfer in Suid-Afrika het 'n negatiewe invloed op buitelandse beleggers. Meer polisiebeamptes behoort opgelei te word en swaarder strawwe moet aan oortreders opgelê word. Daar word ook aanbeveel dat direkte buitelandse investering aangemoedig moet word om toerisme-ontwikkeling in Suid-Afrika te verseker. Vir Suid-Afrika om 'n wêreldspeler te bly, sowel as vir volhoubare toerismegetalle, moet die Regering se toerismebeleid 'n leidende rol speel, terwyl toerisme deur die privaatsektor gedryf word en gemeenskapsgebaseer is. Toerisme kan dus nie ten volle ontwikkel sonder direkte buitelandse investering nie.

Die studie het ook aangedui dat daar 'n sterk verband is tussen die buitelandse toeriste wat Suid-Afrika besoek en die investerings wat plaasvind. Daar is dus aanbeveel dat die model geïmplementeer moet word om volhoubare direkte buitelandse investering in die Suid-Afrikaanse toerismebedryf te verseker.

Sleutelwoorde: Direkte buitelandse investering, toerisme, direkte buitelandse investeringsdeterminante, toerisme-eienskappe, regeringsbeleid en wetgewing, asook instellings.

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ACRONYMS

ACTSA:	Action for Southern Africa
AGOA:	African Growth and Opportunity Act
ASEAN:	Association of Southeast Asian Nations
ASGISA:	Accelerated and Growth Initiative of South Africa
ATMs:	Automatic Teller Machines
BEE:	Black Economic Empowerment
BESA:	Bond Exchange of SA
BIT:	Bilateral Investment Treaties
CIF:	Critical Infrastructure Fund
CGT:	Capital Gains Tax
CPI:	Consumer Price Index
DEAT:	The Department of Environmental Affairs and Tourism
DTI:	The Department of Trade and Industry
ECDC:	Eastern Cape Development Corporation
EMIA:	Export Marketing and Investment Assistance
EPWP:	Expanded Public Works Programme
EU:	European Union
FDC:	Free State Development Corporation
FDI:	Foreign Direct Investment
FIG:	Foreign Investment Grant
FNB:	First National Bank
FSB:	Financial Service Board
FTAs:	Free Trade Agreements
GCIS:	Government Communication and Information System
GDP:	Gross Domestic Product
GEAR:	Growth, Employment and Redistribution
GEDA:	Gauteng Economic Development Support
GNP:	Gross National Product
IDZs:	Industrial Development Zones
IMC:	International Marketing Council
IPA:	Investment Promotion Agency
IISD:	International Institute for Sustainable Development
JV:	Joint Venture

JSE:	JSE Securities Exchange SA
LSDI:	Lubombo Spatial Development Initiative
M&A:	Merger & Acquisition
MIDP:	Motor Industry Development Programme
MIGA:	Multilateral Investment Guarantee Agency
MII:	Mpumalanga Investment Initiative
MNCs:	Multinational Companies
NIC:	New Industrialising Countries
NQF:	National Qualification Framework
NWP:	North West Province
OECD:	Organisation for Economic Co-operation and Development
OLI:	Ownership, Location and Internalisation
OPIC:	Overseas Private Investment Corporation
PATIIS:	Priority Areas of Tourism Infrastructure Investment
PPI:	Product Price Index
PPP:	Public Private Partnerships
RDP:	Reconstruction and Development Programme
SAA:	South African Airways
SADC:	Southern African Development Community
SAFEX:	South African Futures Exchange
SANParks:	South Africa National Parks
SARB:	South African Reserve Bank
SARS:	South African Revenue Service
SAT:	South African Tourism
SDIs:	Spatial Development Initiatives
SIP:	Strategic Investment Programme
SMEs:	Small and Medium Enterprises
SMEDP:	Small and Medium Enterprise Development Programme
SMMEs:	Small and Medium and Micro Enterprises
SPII:	Support Programme for Industrial Innovation
SSP:	Skills Support Programme
THRIP:	Technology and Human Resources for Industry Programme
TIK:	Trade and Investment KwaZulu-Natal
TIL:	Trade and Investment Limpopo
TISA:	Trade and Investment South Africa
UN:	United Nations

UNESCAP: United Nations Economic & Social Commission for Asia and the Pacific

VAT: Value Added Tax

WESGRO: Western Cape Investment and Trade Promotion Agency

WTO: World Tourism Organisation

WTTC: World Travel and Tourism Council

1 INTRODUCTION AND PROBLEM STATEMENT

Encouragement of investment today means growth of the country's potential tomorrow (Anon, 1999).

1.1 INTRODUCTION

The importance of an investment decision cannot be overemphasised and therefore the success of a business is largely determined by the manner in which investment opportunities are utilised. Investment decisions are always considered in the context of improving the profitability of the establishment in a manner that benefits the establishment's owners (Bennett, 2000:264). Most investors strive toward an investment which affects the greatest possible income with the least possible risk. Each investment decision should be approached sensibly and with great care (Du Plessis, 1997:1).

Foreign direct investment (FDI) is an ever-present feature of tourism in developing economies (Chen & Devereux, 1999:209) and can also be viewed in different ways. Some see it as disadvantageous to a country, resulting in a loss of profits that could have been kept in that country, for example, South Africa. It can also be regarded as a reduction in local sourcing of inputs. Others see it as advantageous, as being essential to the development of the industry, bringing in benefits equated to the increases in gross tourism expenditure. The reality is less dramatic than either of these extremes (Dwyer & Forsyth, 1994:535).

Tourism is a phenomenon that comprises a collage of producing and consuming moments (Milne & Ateljevic, 2001:386). There can be no denying that tourism is a major global economic force. It has high-income elasticity, and is 'exportable' by all countries and uses large quantities both of labour, and of skills. According to Page (1999), it is also a major foreign exchange earner for many low-income countries, and was a principal early contributor to foreign exchange in many of the present New Industrialising Countries (NICs). Hardly a day goes by without a new pronouncement about the wider significance of what many call the world's largest industry (Milne & Ateljevic, 2001:370; Page, 1999; Smith, 1997).

In order for South Africa to remain a global player in the Tourism Industry, as well as to sustain tourist numbers, the country's tourism policy is to be government-led, private sector driven and community based and therefore tourism cannot fully develop without FDI (Myburgh & Saayman, 1999).

FDI has played an important role in the development of tourism worldwide, but the analysis of its impacts has been neglected (Dwyer & Forsyth, 1994:512). According to Saayman (2000:3), the Tourism Industry consists of numerous sub-sectors and is in reality a collection of businesses all selling travel-related services. Travel and tourism must increasingly attract investment not only into profit-making facilities such as hotels and entertainment, but also into infrastructure (roads, water-provision, sewerage systems, provision of energy and communication facilities) for which government support is crucial – creating jobs and wealth, stimulating growth and regenerating underdeveloped areas (Clark & Bogran, 2003; Bar-On, 1994:851).

The South African Tourism Industry is valued at $10 billion a year and is expected to rise sharply as government and the private sector invest in a marketing and promotion drive. Investment opportunities in South African tourism are to be found in business ventures such as hotels, resorts, theme parks and game lodges. Eco-tourism also promises excellent investment and development potential (Anon, 2003). Foreign investors in the South African Tourism Industry include major players such as British Airways, Virgin Atlantic, Sheraton, Hilton and Legacy Hotels and Resorts. Foreign investors are drawn by South Africa's growth rate in foreign visitors, according to John Morris from Trade and Investment South Africa (TISA) (cited in FDI Magazine, 2002).

According to Philippa Garson (cited in FDI Magazine, 2002), South Africa is an ideal tourist destination with many FDI opportunities, because of the following reasons:

- **Value for money:** As a result of its unique historical past, South Africa generally has a first-world infrastructure but only third-world costs. For example, a typical tourist development such as a game lodge in the Kruger National Park – one of South Africa's best – has a billing rate for tourists ranging from $170 to $500 per night per person, comparable to other developed countries. In contrast, the cost of land is $4 per square metre, building costs are $270 per square metre, and the average wage cost is $150 per month. Considerably lower than first world costs, these make such investments highly attractive (DTI, 2003a);

- **Good infrastructure:** *According to FDI Magazine (2003), South Africa's infrastructure is the* best in Africa and is in many respects, world class. Last year, South African Airways (SAA), concluded a R35,8 billion deal with Airbus to supply 41 new aircraft – the largest aircraft order ever placed by a southern hemisphere country; and

- **South African economy:** The unique combination of a highly developed first-world economic infrastructure and a huge emergent market economy has given rise to a strong entrepreneurial and dynamic investment environment with many global and competitive advantages and opportunities. South Africa has modern financial and industrial sectors with excellent infrastructure. Government policy is to restructure the economy by encouraging export growth, lower tariffs in line with the World Trade Organisation and increased competitiveness. The process has already begun and long term Government objectives are to continue the transformation through implementation of the Growth, Employment and Redistribution (GEAR) strategy (DTI, 2003b). The latest initiative to improve South Africa's economic performance is the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) (Mohammed, 2006).

South Africa is known for its spectacular beaches, mountains, deserts and bushveld. The characteristics of South Africa's regions and provinces range from lush indigenous vegetation and forests to pristine beaches, snowy peaks, nature reserves, cultural sites and scenic beauty. This significantly increases value and return on investment for tourists and the tourism investor and has led to South Africa's rising popularity as a tourist destination – from 52nd World Tourism Organisation (WTO) ranking in the early 1990s to 17th in 2006. Present tourist arrivals are 8,3 million per annum, with 1,3 million from Europe, 358 thousand from the Americas, 307 thousand from Asia & Australasia and the rest are largely from other parts of Africa (SA Tourism, 2006).

The main goal of this chapter is to highlight the problem statement, goal and objectives, the method of research, chapter depiction as well as chapter clarification.

1.2 PROBLEM STATEMENT

Investments in the Tourism Industry are extremely capital-intensive because of the high cost of suprastructure (resorts, hotels, motels, restaurants, shopping centres, places of amusement and guesthouses) and equipment, for example, the Lost City complex in the North West Province which cost an estimated R800 million to develop in 1992. The Claridge's Hotel in Greenpoint, (Cape Town) is one of the newest investments by the Irish investor, Paschal Phelan, in the South African

Tourism Industry and this development is estimated to cost R260 million (Baker, 2003). The Kerzner group has also invested in a hotel development, called Ocean View, in the Western Cape Province and the investment here is set for R200 million. This hotel was finished between March and May, 2005. A 'One and Only' hotel and casino will be one of the new developments at the V&A Waterfront in Cape Town by Kerzner International Limited, in alliance with Matemeku Investments. The cost of this development will be an estimated R450 million (Anon, 2007). IFA Hotel and resorts, a major investor in Dubai's Palm Jumeirah project, invested $100 million (around R650m) over a 10 year period in the Zimbali Resort, KwaZulu-Natal (De Sousa, 2003). However, capital is tied up for long periods, and returns on investment are very slow. The particular structure of investments in the Tourism Industry, similar to industries requiring heavy investment, needs to be taken into account in the strategic management of tourism firms.

It is also appropriate at this point, to differentiate between the providers of tourism suprastructure such as the hotel and transport sectors, and the packagers and sellers of tourism products such as tour operators and travel agents. The hotel and transport sectors require initial heavy investment to provide the physical elements of the tourism product (for example, the hotel and its fittings, the aircraft or the coach). Investment here will only be recouped over a period after several years (Vellas & Bécherel, 1995:194).

Investments involve uncertainties that make risk-averse people reluctant to invest. The chance that an investment will yield a loss instead of a profit scares potential investors (Francis, 1993:5). Increasing FDI requires that attention is focussed on to the fundamental determinants of international investment decisions and the underlying macroeconomic expectations that may be relevant. These might include: political and economic stability, including macroeconomic stability and the clarity about economic policy; sustained high rates of economic growth; labour market stability and flexibility; investment incentives; the tariff regime; protection of property rights; and various determinants of expected investment returns (Streak, 1998).

The ability of a tourism destination, for example, South Africa, to attract tourism revenues and investment in infrastructure will be influenced by a number of complex factors, such as:

- *Political constraints and incentives (attractiveness of the taxation policies regarding local and foreign investment and imports);*
- The resources and conveniences offered (attractions, transportation, access, hospitality, medical and other services;

- Market characteristics (visitor tastes and preferences, disposal income, propensity to travel, proximity to destination);
- Political stability;
- The ability of the destination to market and promote itself effectively (UNESCAP, 2001);
- Crime is one of the concerns that investors and trading partners may have about investing in South Africa (Hendricks, 2003); and
- HIV & AIDS. Like violent crime, HIV & AIDS not only makes it more expensive to create a job, but it also makes the investment in human capital more risky (Naude & Krugell, 2003a).

Factors that can frustrate potential private FDI are the following:

- Inadequate government support;
- Insufficient investment incentives;
- A lack of supporting infrastructure;
- Difficulties in tackling complex land tenure systems;
- A multiplicity of agencies, many with overlapping functions;
- Excessive time required to obtain decisions;
- A lack of adequate local expertise; and
- Inadequate training schemes (UNESCAP, 2001).

In the Tourism Industry, capital investment in fixed assets is very high compared to turnover and profitability forecasts play a determining role in investment decisions in the capital-intensive sector of the industry. The hotel industry is particularly representative of the difficulty faced by investors in the Tourism Industry. There are two main problems in the financing of tourism infrastructure and services:

- Choosing the investment decision method and the investment criterion; and
- Choosing the sources and terms of financing for the investment (Vellas & Bécherel, 1995:195).

FDI has received much attention from researchers (Table 1.1). These researchers attempted to identify several aspects of FDI, such as policies, strategies, and the determinants of FDI, as well as the impact thereof on countries. While a few of these studies have focused on FDI and tourism however, the importance of tourism characteristics in attracting FDI has been neglected.

Table 1.1: Previous research done on investment

RESEARCHERS	YEAR	TOPIC
Van Zyl, J. & Mahony, K.	2002	The impacts of tourism investment on rural communities: three case studies in South Africa.
Vickers, B.	2002	Foreign direct investment (FDI) regime in the Republic of South Africa.
UNESCAP.	2001	Promotion of investment in tourism infrastructure.
Heese, K.	2000	Foreign direct investment in South Africa (1994-9) – confronting globalisation.
Chen, L.L. & Devereux, J.	1999	Tourism and Welfare in Sub-Saharan Africa: A theoretical analysis.
Streak, J.	1998	The determinants of FDI and South Africa's industrial development strategy: Towards a new research agenda.
Sinclair, M.T.	1998	Tourism and economic development: A survey.
Fielding, D.	1997	Aggregate investment in South Africa: A model with implications for political reform.
Kruger-Cloete, E.	1995	Funding the development of tourism in South Africa.
Dwyer, L. & Forsyth, P.	1994	Foreign tourism investment: Motivation and impact.

Van Zyl & Mahoney (2002) focused on tourism development and its impact on the empowerment of rural communities. The case studies were analysed in terms of both their economic and non-economic benefits, as well as their contribution towards the attainment of certain key policy objectives of the South African government.

Vickers (2002) described and outlined the South African national regulatory regime and policy environment for FDI, and the importance of domestic investment by both private and public sectors.

UNESCAP (2001) researched major issues related to tourism and economic development as well as the development of tourism infrastructure. Suggested measures for creating a favourable atmosphere for investment in tourism infrastructure were also provided.

Heese (2000) investigated trends on investments, for example, foreign direct investment in South Africa, and off-shore investment by South African firms. Furthermore, it showed areas of comparative advantage as well as a decline in FDI in 2000. Additionally, it discussed the importance of privatisation as investment leverage and the prominence of Mergers and Acquisitions (M&A).

Chen & Devereux (1999) used the standard theoretical model of trade to focus on the welfare effects of tourism for developing countries, having specific reference to Sub-Saharan Africa. The study indicated that tourism could reduce welfare for trade regimes dominated by export taxes or import subsidies, as well as the fact that FDI in tourism is beneficial.

Research undertaken by Streak (1998) investigated the government's projections on both current and new FDI in South Africa. It also highlighted South Africa's (then) current development strategy, the understanding of FDI determinants as well as describing the policies put in to place to attract FDI. Moreover, a thumbnail sketch of the evolution of ideas in the economy theory on FDI determinants was presented. Attention was also paid to the important points that emerged from the cursory investigation on the theory of FDI in concurrence with the empirical research. Additionally, comments were also provided on the implications of the analysis for (then) current FDI and development prospects and policies in South Africa.

Sinclair (1998) ascertained the contribution that tourism could make to development. The researcher provided both single equation and systems of equations models to estimate tourism demand, which would indicate developing countries' potential to benefit from increasing expenditure on tourism, but which also showed a country's vulnerability to deteriorate in price competitiveness. Attention was also paid to the main sectors of tourism supply as well as to the importance of cross-country integration between firms. The researcher further argued that problems associated with the use of environmental resources for tourism stemmed from market failure and the research considered methods for increasing, sustainability.

Fielding (1997) endowed more information on the determinants of investment by estimating the parameters of a structural macroeconomic model. A theoretical framework was also presented to introduce a system of equations to provide the context of the econometric model estimated in this research as well as to outline the policy implications thereof.

The focal point of Kruger-Cloete's (1995) research centred on the funding of the development of tourism in South Africa. Attention was also paid to international experience which included aspects

such as policy, the broadening of tourism experience to include cultural renaissance, conservation and development, human and environmental sustainability, investment funding and incentives, and the specific requirements of identified areas, for example, infrastructures and land use.

Finally, Dwyer & Forsyth (1994) illuminated certain impacts of FDI in tourism and evaluated them, in terms of a developed economy, such as Australia. Further, they also investigated some of the motivations for FDI in general, and specifically for tourism, by using the Eclectic Paradigm of international production. In addition to the former, the levels and patterns of foreign investment in Australia were also scrutinised.

As can be seen from Table 1.1, the researchers addressed certain aspects of FDI as a separate entity. This study's focus point, however, is to develop an aggregated FDI model for the South African Tourism Industry that should encompass all aspects of FDI, for example, determinants, policies and all the role players involved in attracting foreign investment such as the government and institutions (SA Tourism (SAT), the International Marketing Council (IMC) and Investment Promotion Agencies (IPA's)) as well as the buying process. It is also important for this model that the government and institutions liaise with each other for sustainable FDI. Another aspect that this model will include is the tourism characteristics of a country. All these elements will eventually lead a foreign investor to a decision to invest in South Africa.

The question that this research will attempt to address is: What would a FDI model for South African Tourism Industry consist of? How can this FDI model accommodate the major role players?

1.3 PURPOSE OF THE STUDY

The following goal and objectives will guide the study.

1.3.1 GOAL

To develop a FDI model for tourism property acquisition.

1.3.2 OBJECTIVES

The objectives are directed towards the achievement of the goal of the study and are as follows:

- To establish what it is that South Africa has to offer to foreign investors.
- To analyse FDI.
- To determine the role of the South African government and institutions with respect to FDI.
- To make recommendations on FDI in the South African Tourism Industry.

1.4 RESEARCH METHODOLOGY

The methodology of research for this study will be twofold. It will firstly, consist of a literature study, and secondly, a survey.

1.4.1 LITERATURE STUDY

The study will be based on articles, books and an Internet survey. Literature and the following databases were used:

- Library databases;
- Internet, email correspondence; and
- RSAT (SA Magazines).

The following key words were used in obtaining information regarding this study:

- FDI;
- Tourism;
- FDI policies and legislation;
- FDI theories; and
- Determinants of FDI.

1.4.2 EMPIRICAL RESEARCH

The empirical research was conducted in the following manner (Figure 1.1):

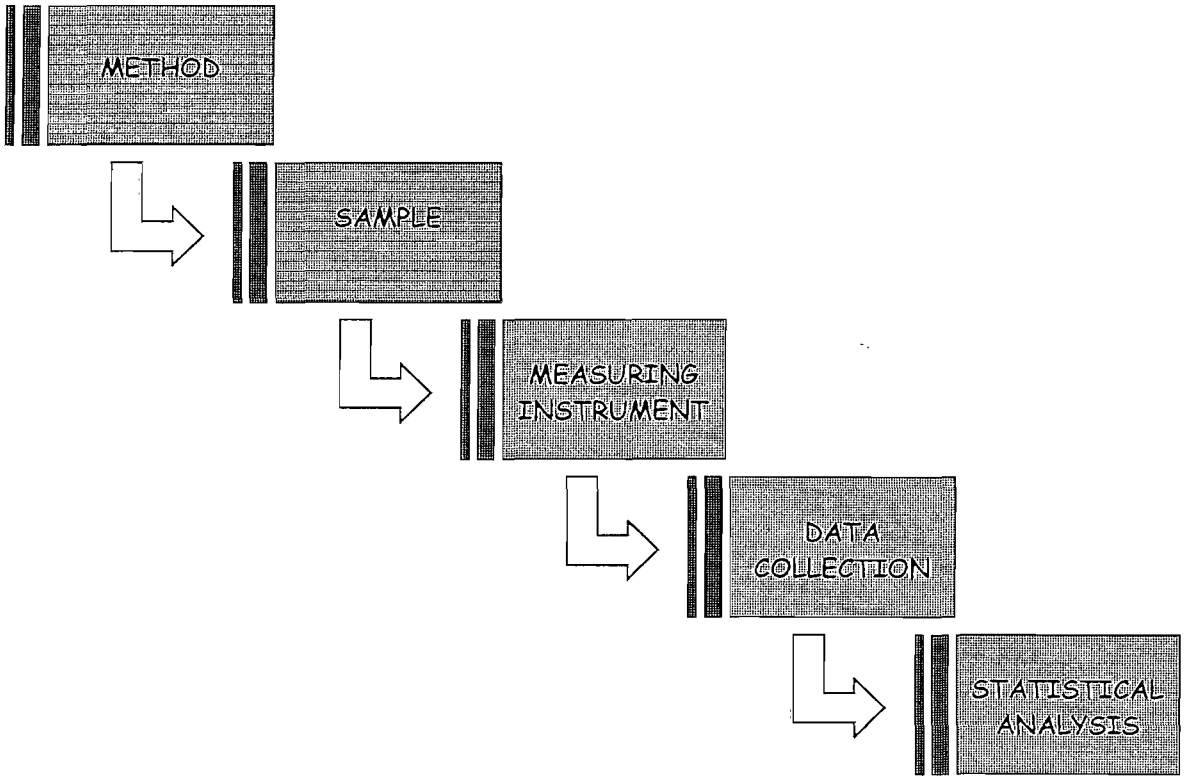

Figure 1.1: Overview of the empirical research

➢ METHOD

A quantitative research was used during the empirical research. The aim of a quantitative research method is to generalise about a specific population, based on the results of a representative sample of the population (Martins, Loubser & Van Wyk, 1999:125).

➢ SAMPLE

The empirical research was conducted in January 2006, South Africa. Firstly, the target population was identified with the assistance of Pam Golding Properties, one of the largest estate agencies in South Africa, with a growing international presence. Approximately four hundred (400) questionnaires were distributed to different foreign businesses, companies and tourism product owners that had properties, hotels, resorts and game farms in South Africa. Secondly, as a result of poor response and the difficulty of finding the above-mentioned target population, due to changed telephone numbers and e-mail addresses, a convenience sampling

method (this method means that respondents are selected on the basis of convenience or availability (Martins *et al.* 1999:253)) was then used and a hundred and fifteen questionnaires (115) were handed out, (and returned), to estate agencies that had sold property to foreign investors. These estate agencies were situated in the following provinces: Western Cape, Eastern Cape, KwaZulu Natal, Limpopo Province, Gauteng, North West as well as Mpumalanga.

➢ MEASURING INSTRUMENT

The measuring instrument that was used for this study was a questionnaire. The questionnaire consisted of structured and unstructured (open ended) questions. The questionnaire measured *the determinants that foreign direct investors take into consideration when investing in the* South Africa Tourism Industry.

A 5 point Likert scale was used where:

1 = not important at all and 5 = very important.

The sum of these statements reveals the attitude to or perception of a given subject or institution (Martins *et al.* 1999:228).

The aim of the questionnaire was to establish:

- The type of FDI in the South African Tourism Industry;
- The main countries that are investing in South Africa;
- What the preferences of foreign investors are;
- What the needs of the foreign investors are;
- What motivates foreigners to invest in South Africa,
- The amount invested in the South African Tourism Industry;
- How the South African Tourism Industry can improve FDI to South Africa; as well as
- How the South African government can improve FDI to South Africa.

- **DATA COLLECTION**

  The questionnaires were obtained via fax, email and personally collecting the questionnaires at the various estate agents.

- **STATISTICAL ANALYSIS**

  Analysis of the data was undertaken at the Statistical Service of the North West University (Potchefstroom Campus) in Potchefstroom, South Africa. The statistics was analysed by means of the SAS-programme (SAS Institute Inc, 2001). The statistical analyses included descriptive analyses and a factor analysis. A principal axis exploratory factor analysis with Promax rotation was performed on 42 statements to identify the determinants where five factors were retained, explaining 53.8% of the variance. Graphs and tables were analysed to support the findings following the conclusion of the empirical process.

1.5 DEFINITION OF TERMS

The following concepts are going to be used frequently; therefore, it is necessary to define them as they will be used in this project.

1.5.1 TOURISM

According to the White Paper on Tourism (SA, 1996a) tourism entails all travel for whatever purpose that results in one or more nights being spent away from home. The concept 'tourism' refers to the phenomenon arising from temporary visits (or stays away from home) outside the normal place of residence for any reason other than furthering an occupation remunerated from within the place visited (Bennett, 2000:6; Lickorish & Jenkins, 1997:2).

Tourism is the sum of the phenomena and relationships arising from the interaction among tourists, business suppliers, host governments, host communities, universities, community colleges and non-governmental organisations, in the process of attracting, transporting, hosting and managing these tourists and other visitors (Weaver & Oppermann, 2000:3; Theobalt, 1998:26; Saayman, 1997:1).

1.5.2 INVESTMENT

Investment refers to the actual application of funds for productive purposes in order to obtain or purchase real economic objects, such as land, hotels, other buildings, machinery and floating assets, taking into account the risks attached thereto and for the purpose of using these real assets to earn an income for the business (Saayman, 2002:277). According to Marx, Mpofu & Van de Venter (2003:3) investment may be defined as the current commitment of money, based on fundamental research, to real, and/or financial assets for a given period in order to accumulate wealth over the long term.

Investment can take three forms for example:

- **Portfolio investment:** Are investments in stocks or bonds and financial markets. Portfolio investments tend to be short-term and highly volatile, and can move rapidly from one country to the next (Vickers, 2002). According to Du Plessis (1997:5), portfolio investment is the total of all the financial and real investments made by a person or institution. Reference is sometimes made to specific portfolios such as share, property, financial or hard asset portfolios.

- **Capital investment:** The money paid to purchase a capital asset or a fixed asset (Unisys, 2004).

- **Financial investment:** Is the transfer of the purchasing power of capital, either directly or through an intermediary, to a third party who uses it for economic investment (Du Plessis, 1997:8).

1.5.3 FOREIGN DIRECT INVESTMENT

FDI is when an investor based in one country acquires an asset in another country with the intent to manage that asset (Naudé & Krugell, 2003b; Stocker, 2000:117; Pearce, 1986:159).

FDI can take on three forms for example:

- **Greenfield investment:** Investment that creates a new asset or facility, either as a wholly owned subsidiary or as a controlling equity stake in a Joint Venture (JV) with a local or a foreign firm. The local firm may be privately or state owned.

- **Cross-border Merger & Acquisition (M&A):** M&A involves a foreign firm acquiring a controlling stake in a local firm.

- **Brownfield investment:** A hybrid form of investment in which the foreign investor acquires a firm but also completely replaces the extant plant and equipment (Vickers, 2002).

1.5.4 MODEL

A model can be defined as a depiction of a system that allows for an investigation of the properties of the system and, in some cases, prediction of future outcomes (Investorwords.com, 2008).

1.6 CHAPTER SEQUENCE

This study has five chapters. Chapter 1 focuses on the Introduction and on the Problem statement. Chapter 2 will focus on an overview of the South African Tourism Industry. Chapter 3 will establish the role that the South African government and other institutions play in FDI. Chapter 4 will reflect the results of the survey. Chapter 5 will reach conclusions and make certain recommendations.

Figure 1.2, provides a schematic outline of this study.

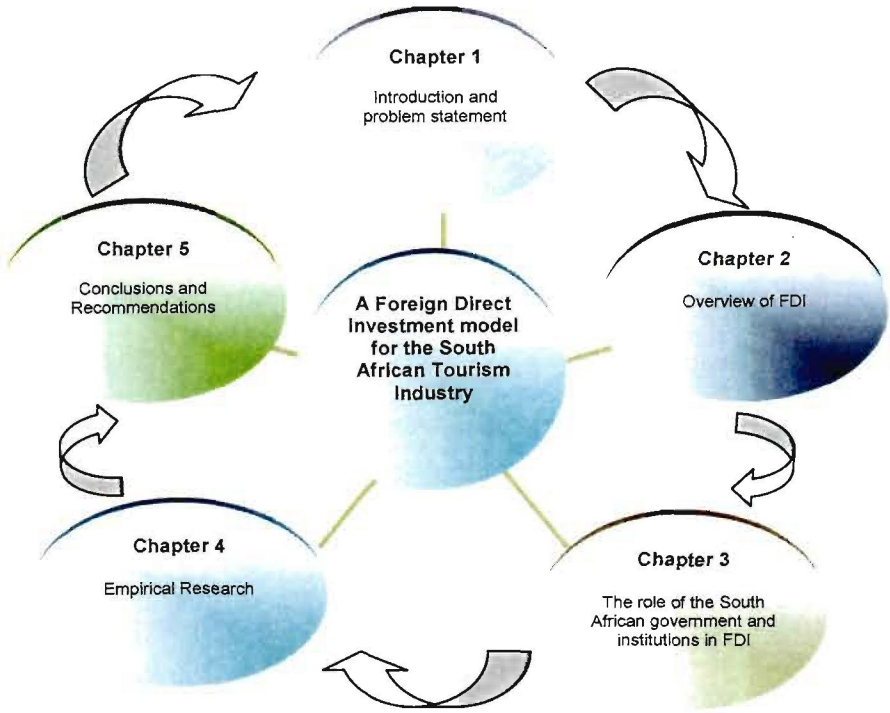

Figure 1.2: Schematic outline of the study

2 OVERVIEW OF FOREIGN DIRECT INVESTMENT (FDI)

Business is a continual dealing with the future, a continual calculation, an instinctive exercise in foresight.

Henry R. Luce (1898 - 1967)

2.1 INTRODUCTION

FDI is investment that gives an investor control over Multi-National Companies (MNC) that function in foreign countries. FDI has become increasingly important in the world economy (Cheng, Qiu & Tan, 2005; Li & Liu, 2005; Bevan & Estrin, 2004; Erdal & Tatoglu, 2002; Hong, Jones & Song, 1999). There are a number of reasons why investment plays an important role in determining the Gross Domestic Product (GDP) in an economy. Firstly, it increases a country's productive capacity and secondly, it induces shifts in the aggregated levels of employment and personal income by affecting the demand for capital goods and finally "Empirical evidence indicated that investment is a highly volatile component of GDP" (Du Toit & Moolman, 2003).

In recent literature, much attention has been paid as to how FDI influences the economic growth of host countries. The impact of FDI on growth is diverse (Li & Liu, 2005): the first impact is on a country's strategy for economic development (Cheng & Kwan, 2000) and the second impact is on the enhancement of economic relations among nations (Yang, Groenewold & Tcha, 2000), because FDI is widely regarded as an amalgamation of capital, technology, marketing and management (Cheng & Kwan, 2000). Several factors play a role in attracting FDI. A frequently used model is that of OLI (Ownership, Location, and Internalisation) by Dunning, (1993).

According to Dunning (1993) and Resmini, (2000), FDI can only take place if the following factors exist at the same time:

- The presence of ownership's (O) specific advantages;
- The presence of locational (L) advantages in both home and host countries;
- The presence of superior commercial benefits when exploiting both ownership and locational advantages directly, rather than in exchanging them on the market through licensing or co-operation agreements with an independent foreign firm.

The above-mentioned factors will be discussed in detail in section 2.2.

This chapter's aim is to identify the relevant aspects that determine FDI inflows into a country, the types of FDI; the reasons why MNC's undertake FDI, theories regarding FDI as well as the advantages and disadvantages that FDI creates for the host country. In other words, this chapter is aimed at achieving objective 2 of the study, which is to analyse FDI.

2.2 REASONS WHY MULTINATIONAL COMPANIES (MNC'S) UNDERTAKE FOREIGN DIRECT INVESTMENT (FDI)

MNC's refer to those organisations that own a technology or a business practice that renders it competitive *vis a vis* other companies, both within its home country and abroad (Bhaumik & Gelb, 2004). According to Kim, Kim & Kim (2002), the reasons why MNC's undertake FDI is due to the favourable economic and political circumstances in the host country as well as the investors'/MNC's desire to sell its products/services abroad. Another reason for a MNC/investor to undertake FDI in overseas countries is mainly the manufacturing cost advantages offered by, for example, low labour costs or availability of natural resources. A MNC can also minimise its costs of production or marketing in the chosen country where the MNC decides to invest in (Yang, *et al.* 2000; Wang & Swain, 1997).

It can also be argued that higher interest rates in a host country can also attract FDI inflows (Yang *et al.* 2000; Bull, 1990). MNC or individual investors chose a country that provides the best opportunities to enter or expand its product or services (Czinkota, Ronkainen & Moffett, 2003; Resmini, 2000):

- **SEEKING RESOURCES**

  Foreign companies continue to search for distinctive and valuable assets for its products.

- **SEEKING FACTOR ADVANTAGES**

  Assets needed for production are often combined with other advantages that are intrinsic in the country of production, such as low-cost labour.

- **SEEKING KNOWLEDGE**

  Companies may attempt to acquire other companies in other countries for the technical or competitive skills they possess. Alternatively, companies may locate in and around centres of industrial enterprise unique to the Tourism Industry.

- **SEEKING SECURITY**

  Companies seek political stability or security.

- **SEEKING MARKETS**

  The ability to gain and maintain access to markets is very important to MNC. South Africa's infrastructure, including harbours and airports, plays a vital role in the FDI decision as these can also link SA with other countries in Africa.

The former, together with certain theories (that will be discussed further in section 2.2.1), such as the portfolio theory, the product life-cycle theory and the oligopoly model have been used by researchers such as Kim *et al.* (2002) as a basis to explain and justify FDI.

2.2.1 THEORIES REGARDING FDI

Marx *et al.* (2003:26) claim that an investment theory makes, firstly, an effort to explain the way in which the investors specify and measure risk and, secondly, return in the valuation process. Several theories of FDI exist, such as: Dunning's (1993) theory of OLI, the portfolio theory, the product life-cycle theory and the oligopoly model, but for the purpose of this study, the focus will be on Dunning's (1993) theory of OLI and the product life-cycle theory as these theories are seen as more applicable to the Tourism Industry.

➢ PORTFOLIO THEORY

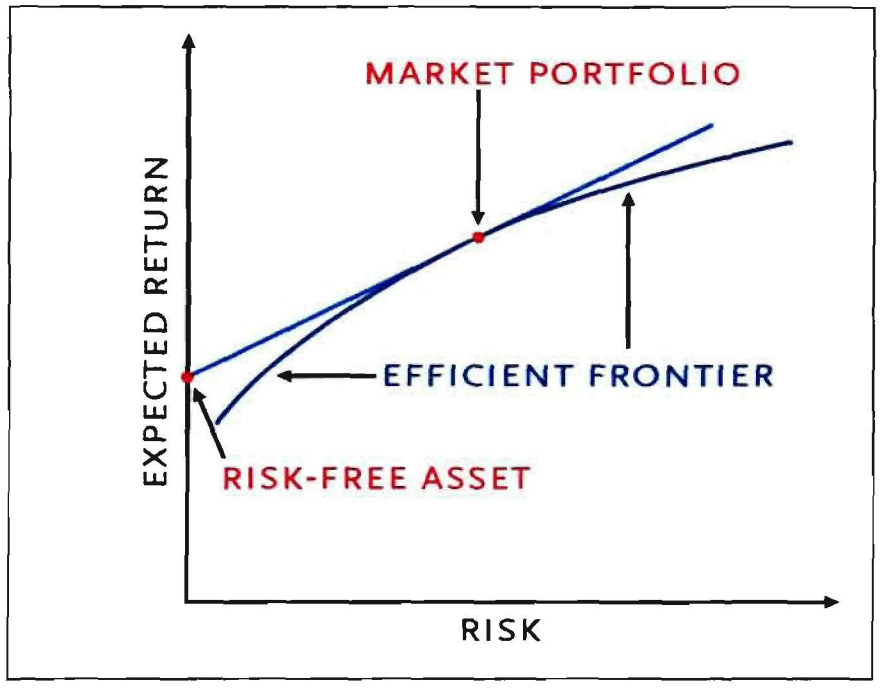

Figure 2.1: Portfolio Theory (Source: Answers.com, 2007)

Harry Markowitz developed the portfolio theory (Figure 2.1) in 1952 as part of his doctoral thesis (Anon, 2005). The portfolio theory indicates that a company is often able to improve its risk-return performance by holding a diversified portfolio of assets. This theory represents another rationale for FDI. The theory rests on the two variables: risk and return. Risk is the variability of returns associated with an investment project. Two projects may have the same long-term average rate of return, but one project may fluctuate widely in annual return, while the other may have a stable return. A project whose returns fluctuate widely is said to be more risky than whose returns are stable. However, only few financial variables are known in advance. Business executives and investors are, basically, risk averse. Thus, they want to minimise the overall degree of risk for their investment projects. Fortunately, there are many business situations in which the risks of individual projects tend to offset each other. Consequently, successful diversification makes it possible for investors to have a portfolio with risk less than the sum of the risks of the individual projects in the portfolio. The key element in the portfolio theory is the correlation coefficient between projects in the portfolio. When projects with low degrees of correlation are combined with each other, a company is able to reduce its risk of expected return (Kim *et al.* 2002).

➢ THE PRODUCT LIFE-CYCLE THEORY

Raymond Vernon developed the product life-cycle theory in the 1960's, when the United States was the leader in research and development capabilities and product innovations (Eun & Resnick, 2000). The theory of product life-cycles explains changes in the location of production. The product life-cycle will be explained by using Tourism Industry related examples.

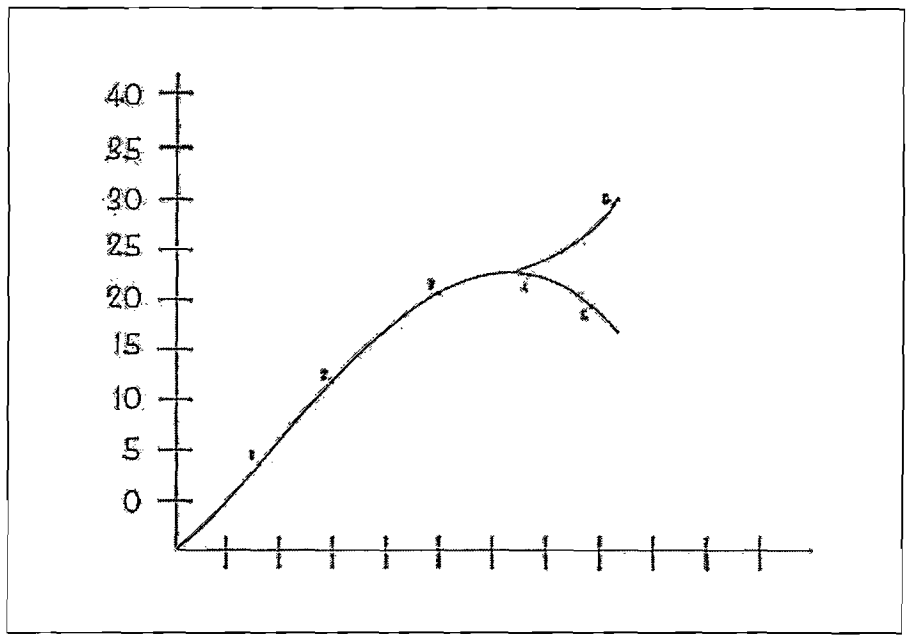

Figure 2.2: The product life cycle (Source: Saayman, 2001)

Figure 2.2 illustrates a product life cycle and its 5 phases, namely:

The introduction phase (1), which implies that new products are entering the South African tourism market, then a (2) *growth phase,* follows. During the growth phase, the tourism product is accepted by the target market. This phase differs from product to product, mainly because some products last only a few months in contrast to those products that can last for a number of years. The tourism product then reaches its (3) *maturation phase*, that is, the product is well established in the market place. However, before this stage is reached, there must already be a plan to modify this product. At this point, some companies will shift its products to developing countries for the following reasons:

- Standard production methods necessitate many unskilled workers;
- Most developing countries have an abundant supply of unskilled labour; and
- Labour costs are lower in developing countries than in advanced countries.

From maturation, the (4) *saturation phase* follows, when the product is forced out of the market, unless it is (6) modified. Lastly the (5) *decline phase* follows (Husted & Melvin, 2004; Bennett, 2000; Kim *et al.* 2002; Saayman, 2001; Eun & Resnick, 2000; Lucas, 1993; Petrochilos, 1989).

The above process can form the basis on which FDI can be explained and justified. The Hilton Hotel Group was established in the United States of America. Later on, the Hilton Hotel Group expanded to other countries, following the success in the USA, thereby increasing its market share in the hospitality industry world-wide. As the product become more standardised, it is possible for competing hotels to gain market share, if these hotel groups have a cost advantage. In such cases, comparative advantage shifts from the country that developed the Hilton Hotel, (which was the United States of America) to countries, such as South Africa, where the Hilton Hotel was not yet established (Husted & Melvin, 2004; Kim *et al.* 2002).

➢ OLIGOPOLY THEORY

The oligopoly theory was developed by F.T Knickerbocker and was based on the idea that companies follow domestic competitors overseas (Hill, 1994).

If an investor/MNC decides to buy a hotel in South Africa, they can end up with one of several hotel groups: Protea Hotels, Southern Sun, Legacy, and Relais. These four hotel groups provide similar services in South Africa. The investor/MNC determines the quantity of rooms and the price at which that quantity is advertised. Analysts say that only a small number of MNC in each major industry also dominate the world market of that segment. An oligopoly exists where there are only a few companies whose products are usually close substitutes for one another, because a few companies dominate a market, each of these companies having a large share of the market. Thus, the policies of one company have repercussions on the others. The oligopoly model offers one way of explaining why MNC invest in foreign countries. The oligopoly model, however, presumes that business companies make foreign investments to exploit their quasi-monopoly advantages. Nevertheless, the advantages of an MNC over a local company may include technology, access to capital, differentiated products built on advertising, superior management, and organisational scale (Kim *et al.* 2002).

Horizontal investments for foreign production of the same goods as made in a home market are undertaken to produce operational economies of scale. A horizontal investment may reduce the number of competitors, eliminate duplicate facilities, and expand a firm's operation in an existing product line. Vertical investments for foreign production of raw materials are usually made to control input sources. The industry raises barriers to entry of new competitors, and also to protect their oligopoly positions. Some companies make defensive investments to prevent others from getting an unanticipated advantage (Kim *et al.* 2002).

➢ THEORY ON OWNERSHIP, LOCATION AND INTERNALISATION (OLI)

According to Dunning, (1993) there are three conditions for a company/individual to undertake FDI (Figure 2.3).

$$FDI = O + L + I$$

Figure 2.3: OLI theory (Source: Investments & income, 2007)

Each of these three conditions will be discussed separately below:

The *first condition* refers to ownership advantage that a company of one nationality should have over another. These advantages not only include tangible assets, for example, natural endowments, manpower and capital but also intangible assets, such as technology and information, managerial, marketing and entrepreneurial skills, organisational systems as well as access to intermediate final goods markets. The ownership advantage gives market power or a cost advantage to the company that will be adequate to compensate for the disadvantages of doing business abroad. It can then be said that if a country possess an ownership advantage, it will positively influence FDI flows to that country (Dunning, 1993).

The *second condition* refers to the location specific assets. These assets favour home or host countries. Examples of location specific assets include cultural, legal, political and institutional environments in which it is deployed, market structure and government legislation and policies. These assets can also be owned by certain enterprises of the home country, but be capable of being used with other resources and capabilities in the home country or elsewhere. Such assets may take the form of a legally protected property right or of a commercial monopoly (Dunning, 1993). To make the location asset more

applicable to the Tourism Industry, it can be understood that several African countries have attractions akin to South Africa, having regard to wildlife. However, as South Africa has the advantage of the Big 7 (lion, cheetah, rhino, elephant, buffalo, great white shark and the whale) which few other countries possess, it can thus, influence the investors' decision to invest in South Africa rather than in another African country.

The *third condition* is the internalisation incentive advantage. The latter refers here to conditions such as low labour cost or easy access to a country. It must then be profitable for a country to utilise the above-mentioned factors outside its borders for FDI inflows. If the above conditions can be accomplished, it may be seen as an explanation of why companies undertake FDI (Dunning, 1993).

Several reasons exist why companies undertake FDI as indicated in section 2.2, nevertheless, the amounts invested in a country and the choice of where to invest is influenced by the presence of micro and macro determinants (section 2.3) as well as tourism characteristics (section 2.4) of a destination.

2.3 DETERMINANTS OF FDI

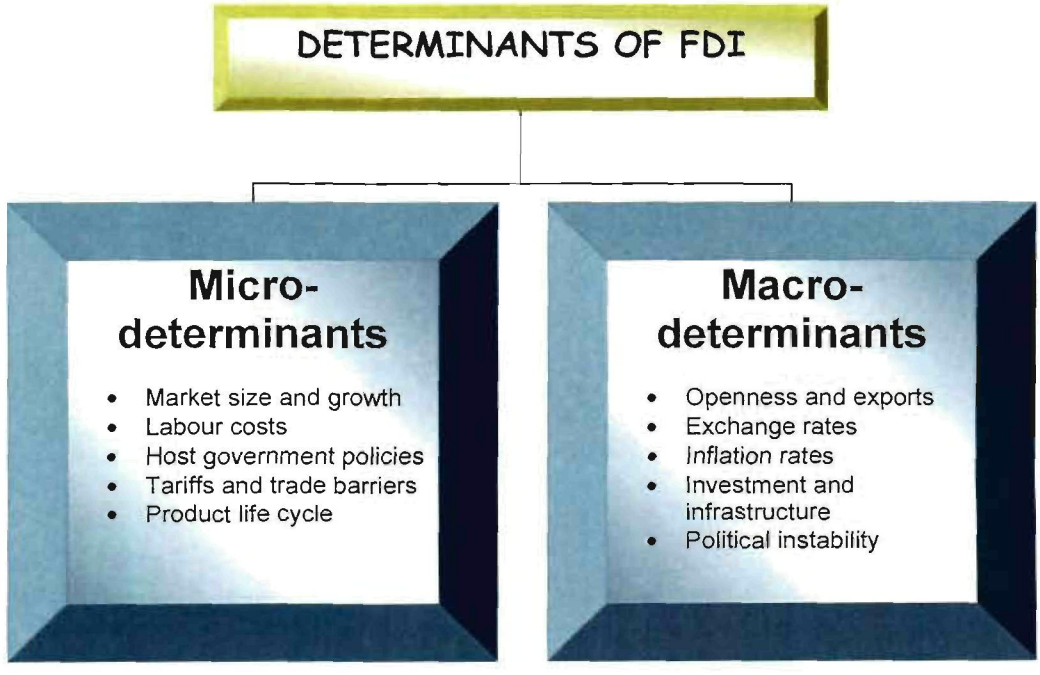

Figure 2.4: Determinants of FDI

Figure 2.4 was compiled using articles from the following sources: Eicher & Kang, 2005; Saayman & Snyman, 2005; Barnard, 2004; Husted & Melvin, 2004; Marx *et al.* 2003; Bandelj, 2002; Biswas, 2002; Cheng & Kwan, 2000; Resmini, 2000; Urata & Kawai, 2000; Yang *et al.* 2000; Bhinda, Griffith-Jones & Martin, 1999; Chaudhuri & Srivastava, 1999; De Mello, 1997; Wang & Swain, 1997; UN, 1995; Amirahmadi & Wu, 1994; Lucas, 1993; Veugelers, 1991; Petrochilos, 1989; Gray, 1987; Schneider & Frey, 1985.

Determinants of FDI can be divided into two groups; namely: micro- and macro-determinants (Figure 2.4). The difference between these is that micro-determinants of FDI focus more on the location-specific factors that have an impact on the profitability of FDI at an industry level, whereas the macro-determinants of FDI are the factors that influence profitability and the choice to invest at an economy-wide level.

Foreign countries, companies or individuals use these determinants to evaluate the country or countries they want to invest in (Veugelers, 1991). A number of researchers have attempted to identify or assess the determinants of FDI. These include Bevan & Estrin, (2004); Jenkins & Thomas, (2002); Urata & Kawai, (2000); Loots, (2000); Eun & Resnick, (2000); Streak, (1998); Wang & Swain, (1997).

2.3.1 MICRO-DETERMINANTS OF FDI

The micro determinants of FDI include factors such as markets size and growth, labour costs, host government policies, tariffs and trade barriers as well as the product life cycle (Eicher & Kang, 2005; Saayman & Snyman, 2005; Biswas, 2002; Cheng & Kwan, 2000; Resmini, 2000; De Mello, 1997; Wang & Swain, 1997; UN, 1995; Lucas, 1993; Veugelers, 1991; Petrochilos, 1989; Gray, 1987; Schneider & Frey, 1985). As mentioned before, micro determinants refer to the location-specific factors that will influence FDI. Each of the micro-determinants is explained:

- ***MARKET SIZE AND GROWTH***

  The market size and growth of a host country is a vital determinant in attracting FDI (Eicher & Kang, 2005; De Mello, 1997; Lucas, 1993). When a market of a country grows until it reaches the level of scale economies, the country will attract FDI (Resmini, 2000; Lucas, 1993; Veugelers, 1991; Petrochilos, 1989). The reason for the foregoing is that a growing economy ensures a company that there is a market for its product(s) and, as indicated, provides for scale economies (Lucas, 1993).

Evidence from empirical studies indicates the importance of market size and growth as a determinant for FDI, for example, Schneider & Frey (1985) had the following two hypotheses on market size and growth: Firstly, the higher Gross National Product (GNP) per capita, the better the prospects are that direct investment will be profitable and, secondly, a high rate of growth of GNP provides an indicator of a good development potential for the future. This suggests a positive influence on FDI. Cheng & Kwan (2000) also found the first hypothesis by Schneider & Frey (1985), to be true. Researchers such as Wang & Swain (1997) and Veugelers (1991), have also indicated that the market size and growth of a market will have a distinct influence on FDI.

- ***LABOUR COSTS***

Labour costs are an important aspect that a foreign country, company or individual will scrutinise when deciding to invest in a country. For example when the Hilton Hotel group made an investment in South Africa, the cost of labour increased, as it was necessary to employ skilled and educated personnel. The opposite it is also true, if a foreign company decides to buy a wine farm, lesser skilled personnel are required, which decreases labour costs. To conclude, the more specialised the product is, the more the labour costs will be, the less specialised the product is, the labour costs will decrease (Wang & Swain, 1997; Gray, 1987). Biswas (2002), and Veugelers (1991), indicated that lower labour cost will attract more FDI.

- ***HOST GOVERNMENT POLICIES***

Host government policies such as, preferential tax treatment, the time, and effort needed to gain governmental approval as well as the environment of doing business will have an impact on a location's attractiveness to foreign investors (Cheng & Kwan, 2000). Host government policies are therefore location specific (UN, 1995). Host governments also offer incentives to attract FDI. Chapter 3 indicates what incentives the South African government offer to attract FDI.

-

No government approval is required for foreign investors to establish a new business in South Africa apart from the approval required under the exchange control regulations. The investor will be required to appoint consultants/auditors/legal advisors to register a company on his/her behalf. The company should be registered within 21 days; it should also register for tax. In South Africa, there are no locations where a foreign-owned business is prohibited or investment is officially discouraged. The forms, which are to be filled by an investor, are simple and understandable. The whole process from beginning to end on average may take six months but

if done through Trade and Investment South Africa it can be finalised within one month. Trade and Investment South Africa is a one-stop shop to help investors with issues relating to exports and investment (Barnard, 2004).

South Africa actively encourages direct and indirect investment by non-residents persons and companies. Virtually all business activities are open to foreign investors and there are generally no restrictions on foreign investment by individuals. Restrictions would usually relate to a particular industry and be applicable to both residents and non-residents. Very few restrictions apply only to foreign companies. For example, a foreign hotel group establishing a franchise in SA may be required to employ a certain minimum number of local residents and may be obliged to have a minimum capital base. Restrictions also exist regarding the ownership of immovable property by foreign companies. Foreign companies are required to register as external companies before immovable property may be registered in their names (Barnard, 2004).

However, even given the fact that there are certain policies and legislation that the South African government has implemented with regard to FDI, certain issues come to the fore, such as how much property and land in South Africa is owned by foreigners, and how citizens of countries with strong currencies can force up prices. As an example, in the Western Cape currently 30% of the estates in Cape Town and its surrounds belong to foreigners and this makes it very difficult, that is, expensive, for the local inhabitants to acquire property. In 2007, the government undertook an investigation into the above-mentioned, however, although it was said that the Property Act will not be affected (Gunning, 2003). In terms of Article 25:1 of the Constitution (1996b), no one may be deprived of property except in terms of law of general application, and no law may permit arbitrary deprivation of property. Every citizen of South Africa has property rights and it is up to the Government of South Africa to ensure sustainable investment with regard both to South Africans and foreigners that want to buy properties while on the other hand, seeking to improve foreign investment.

The following are examples of the South African government's policies that influence FDI:

☙ *Broad-based Black Economic Empowerment Act no. 53 of 2003*

The latter constitutes Black Economic Empowerment (BEE) within the Tourism Industry of South Africa. A certain percentage of each tourism product company/business must comprise of black people. The objective of this act is to increase broad-based and effective participation of black people in the economy and to promote a higher growth rate, increased

employment and more equitable income distribution. When a foreign company invests in the South African Tourism Industry, that company also becomes subject to the BEE Act (BEE Act, 2003).

☙ *GEAR Strategy*

The GEAR document was developed to address the issues of economic growth, employment creation and redistribution of income in South Africa (Saayman & Snyman, 2005). The Department of Environmental Affairs and Tourism (DEAT), after wide consultation, developed a framework for tourism growth in line with the national GEAR principles. This framework indicates that free enterprise is the cornerstone of a successful Tourism Industry, and that sufficient public and private support should be given to tourism entrepreneurs.

☙ *AsgiSA*

AsgiSA is also one of the South African Government's policies that can positively influence FDI. A detailed discussion regarding AsgiSA will feature in Chapter 3, section 3.4.5.

☙ *Labour Relations Act*

A foreign investor or MNC must comply with the Labour Relations Act of 1995. The purpose of this act is to advance economic, social justice, labour peace and the democratisation of the workplace by fulfilling the primary objectives of this act. Section 27 of this act, entrenches the following rights:

- Every person shall have the right to fair labour practices;
- Workers shall have the right to form and join trade unions, and employers shall have the right to form and join employers' organisations;
- Workers and employers shall have the right to organise and bargain collectively;
- Workers shall have the right to strike for the purpose of collective bargaining; and
- Employers' resort to the lockout for the purpose of collective bargaining shall not be impaired, subject to subsection 33(1) (Department of Labour, 2005).

➢ *TARIFF AND TRADE BARRIERS*

According to Resmini (2000), FDI is sometimes used to overcome entry barriers into a foreign market, including tariff and non-tariff barriers. High tariff barriers are associated with high

inflows of FDI, whereas trade liberation tends to reduce FDI inflows (Wang & Swain, 1997). "Tariffs are included as a proxy for the host country trade policy, which is likely to discourage trade movements and thereby encourage the establishment of affiliates to serve host country markets. The measure is rather incomplete, since affiliates may have been located prior to the establishment of a tariff free zone" (Veugelers, 1991).

2.3.2 MACRO-DETERMINANTS OF FDI

As already indicated in section 2.3, macro determinants refer to factors that influence profitability and the choice to invest at an economy-wide level. These macro-determinants of FDI include openness and exports, exchange rates, inflation rates, budget deficits, investment and infrastructure and political instability (Husted & Melvin, 2004; Marx *et al.* 2003; Bandelj, 2002; Cheng & Kwan, 2000; Resmini, 2000; Urata & Kawai, 2000; Yang *et al.* 2000; Bhinda *et al.* 1999; Chaudhuri & Srivastava, 1999; De Mello, 1997; Wang & Swain, 1997; UN, 1995; Amirahmadi & Wu, 1994; Lucas, 1993; Schneider & Frey, 1985).

An explanation will now be given of each of the macro-determinants.

- ***OPENNESS AND EXPORTS***

  Several studies indicated that FDI can be associated with the openness of the economy of a country (Resmini, 2000) as well as the enthusiasm of the host government (Amirahmadi & Wu, 1994). A host government which limits foreign investments deprives a country of receiving an immense quantity of FDI (Amirahmadi & Wu, 1994). According to Cheng & Kwan (2000), the location choice of FDI is determined by relative profitability. If a location is chosen as the destination of FDI, then from the investors' point of view, it must be more profitable to produce in that location than in others, given the location choice of other investors. If the goods are produced for export, the costs of producing the goods as well as the costs and reliability of transporting it to the world market are most crucial. A more open economy is more likely to attract FDI, if the goods and services are produced for the local market, then local demand factors will also matter.

- ***EXCHANGE RATES***

  Exchange rates refer to the price of money in terms of another currency (Husted & Melvin, 2004). Exchange rates are expected to affect FDI, as far as it affects the companies' cash flow, expected profitability and the attractiveness of domestic assets to foreign investors. A positive

impact is to be expected when the domestic currency is relatively weak compared to that of the foreign investor (De Mello, 1997). Reasons to explain the importance of exchange rates as a vital determinant in attracting FDI (Urata & Kawai, 2000; Yang *et al.* 2000) are the following: the currency (for example, South African Rands vs. the American Dollar) of a country and secondly, exchange rate risks. The effect of currency devaluation on the FDI of any particular industry will be determined whether it is relatively more dependent on the foreign market for the export of its input or for the import of its input (Wang & Swain, 1997). When a country's exchange rate decreases in value, the products of that country become cheaper and can be exported effortlessly. However, when a country's exchange rate increases in value, it is cheaper to import products to that country (UN, 1995). It can also be added that high fluctuations in the exchange rate tend to discourage FDI inflow, as it increases the uncertainty associated with the economic environment of the host country (Urata & Kawai, 2000).

- ***INFLATION RATE***

Inflation refers to the rate at which the general levels of prices are rising. Inflation results in a decline in the buying power of money and may be measured in terms of either the Product Price Index (PPI) or the Consumer Price Index (CPI) (Marx *et al.* 2003). Inflation is an additional variable to measure the economy volatility of a country, which may be expected to increase the user cost of capital in the recipient economy and possibly to affect the profitability of FDI negatively (De Mello, 1997). An increase or decrease of a country's inflation will have an influence of FDI inflow. If a country's inflation rate is high, it will reflect the economic tension within the country and or the inability or unwillingness of the government and the central bank to balance the budget and to restrict money supply. If the inflation rate is high, it will negatively influence FDI inflows. The opposite is also true, the lower the inflation rate, the more FDI the country will attract (Schneider & Frey, 1985). Therefore, if the government of South Africa wishes to encourage FDI inflow, the government, should maintain high interest rates and low inflation (Yang *et al.* 2000).

- ***BUDGET DEFICITS***

Budget deficits can mean either of two things: government spending exceeds tax revenues and the deficit has to be financed by means of debt as well as an increase in the demand for funds, which, if the supply of funds does not increase, simultaneously, could lead to an increase in interest rates. The investment analyst must ask himself if the budget deficit is expected to increase or decrease during the period under consideration, and if so, what would be the expected outcome on the economy (Marx *et al.* 2003)? The budget deficit can be related to the

uncertainty and the choice to invest. A high or increasing budget deficit is not a host country characteristic that encourages FDI flows. It is more likely to cause uncertainty regarding the sustainability of the host government's fiscal stance and about what that may imply for the cost and profitability of investment. Empirical work by Chaudhuri & Srivastava (1999) supports a negative and significant relationship between budget deficits and FDI flows.

- ***INVESTMENT AND INFRA-/SUPRASTRUCTURE***

  Good infrastructure (for example transportation, communication services, sewerage systems and roads) and suprastructures, such as resorts, hotels, motels, restaurants, shopping centres, places of amusement and guesthouses provides the right environment to attracting FDI (Cheng & Kwan 2000; Urata & Kawai, 2000). Inadequate infrastructure and suprastructure will negatively influence the investor/company's decision to invest in a country (Urata & Kawai, 2000; Bhinda *et al.* 1999). The availability of good infrastructure and suprastructures ensure the MNC/individual that a product can be produced in the chosen country. South Africa's infrastructure was highlighted in Chapter 1 and it will be raised once more in Chapter 3.

- ***POLITICAL INSTABILITY***

  Political instability provides a hostile environment for foreign organisations, which discourage FDI (Bandelj, 2002; Bhinda *et al.* 1999). Political instability presents a number of trepidations, such as product disruption, confiscation of damage to property, threats to personnel, a change in macroeconomic management as well as the regulatory environment (Lucas, 1993) that will influence FDI inflows to a country. Empirical research done on the determinants of FDI implicated that political instability of a host country will negatively influence FDI inflows to a country (Wang & Swain, 1997; Schneider & Frey, 1985).

Section 2.3 provided an explanation of micro-and macro determinants of FDI. However, the tourism characteristics of a country can also influence foreign investors to invest in a country. Section 2.4 focuses on these tourism characteristics.

2.4 TOURISM CHARACTERISTICS

Tourism products have certain characteristics (Figure 2.5) that make it different to typical products individuals or, for the purpose of this study, foreign investors may purchase (Keyser, 2002).

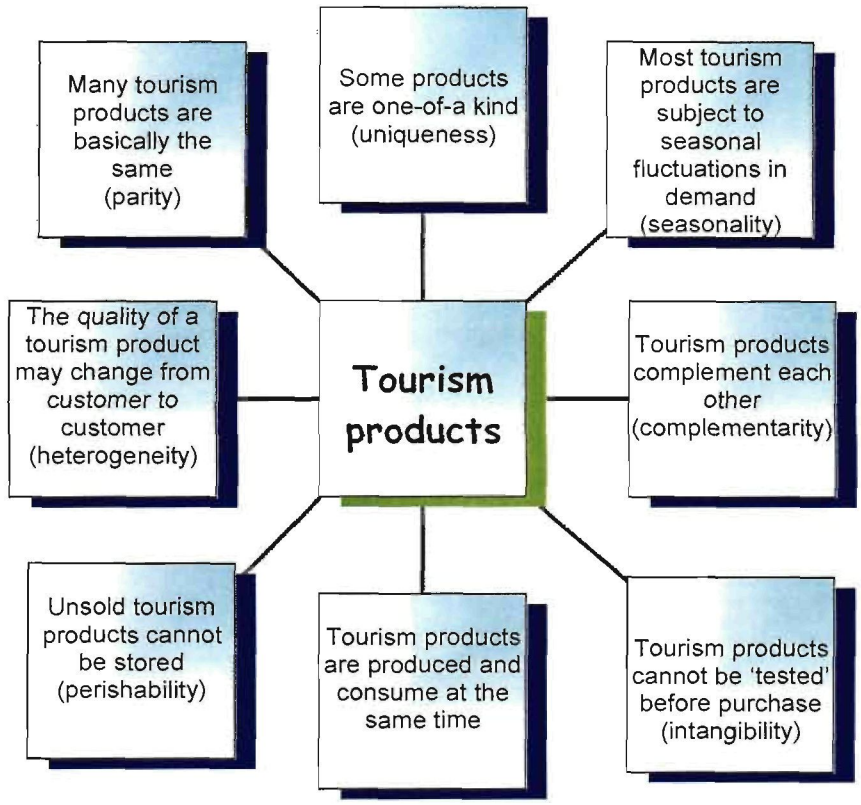

Figure 2.5Characteristics of tourism products (Source: Keyser, 2002)

- ***INTANGIBILITY***

Tourism products cannot be seen, touched, or handled, for example, a tourist cannot "test-drive" a trip overseas before he/she will purchase it or assess the quality of the service component before buying the product (Bennett, Jooste & Strydom, 2005; Keyser, 2002; Saayman, 2000).

- ***INSEPARABILITY OF PRODUCTION AND CONSUMPTION***

Tourism products are sold, produced, and consumed simultaneously. A tourism product cannot be stored for use when it is needed; for example, a hotel guest uses a hotel room as it is made available for that night's sleep (Keyser, 2002; Saayman, 2000).

- ***PERISHABILITY***

Perishability is linked to tourism products that are consumed as they are produced, for example, a guesthouse has a specific number of rooms available each night of the week (Keyser, 2002).

- ***HETEROGENEITY***

  Heterogeneity can be explained as the potential for high variability in service performance. The quality and essence of services can vary from producer to producer, from customer to customer, and from day to day (Keyser, 2002). For example: A hotel guest might find that the same employee renders services of a varying standard, depending on mood, the time of day, the day of the week or the customer involved. The consistency of the service depends on the employee's skills and performance at the time of exchange (Bennett *et al.* 2005).

- ***SEASONALITY***

  Most travel and tourism products are seasonal in nature. In general, tourism seasonality is the fluctuation in demand for travel at different times of the year, for example school holidays, climatic season, specific events such as Christmas, carnivals, and Easter (Keyser, 2002; Saayman, 2000).

- ***PARITY***

  Parity refers to competing companies offering the same basic product, for example Avis, Euro-car, and Budget car rental (Keyser, 2002).

- ***UNIQUENESS***

  Some tourism products are, however, truly unique. Certain destinations and attractions are appealing because they are so different and remarkable. They offer experiences that cannot be duplicated and thus attract tourists with little marketing, such as the Eiffel Tower in Paris (Keyser, 2002).

- ***COMPLEMENTARITY***

  A traveller seldom purchases just the one tourism product. For example, if a tourist from the UK bought a flight ticket to South Africa, he/she will also purchase a rental car and accommodation. Key components required for a tourism destination to flourish are travel distribution, transportation and infrastructure, accommodation and other tourist facilities (Keyser, 2002).

Some characteristics of a tourism destination at which an individual or MNC look when deciding to invest in a country, such as South Africa, has been previously discussed. However, this section will also focus on the components of tourism products, services, location and accessibility, and tourism

growth potential (Foreign & Commonwealth office, 2007; Bennett *et al.* 2005; DTI, 2005; Burger, 2003; DTI, 2003a; Saayman, 2002; Saayman, 2000).

2.4.1 COMPONENTS OF THE TOURISM PRODUCT

Investors or MNC are interested in the tourism products that a country has to offer. The components of the tourism products that South Africa has to offer will now be discussed (Figure 2.6).

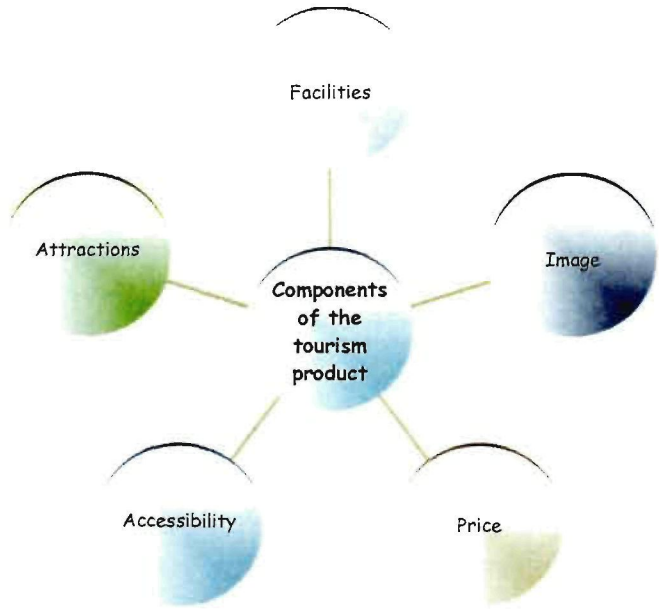

Figure 2.6: Components of the tourism product (Source: Bennett *et al.* 2005)

- **FACILITIES**

  Tourist facilities are those factors that do not generate tourism flows themselves, but if they are not available, the lack thereof can negatively influence from visiting a destination. These facilities include, for example, accommodation, restaurants, transport and sport or other activities (Bennett *et al.* 2005).

- **IMAGE**

  Image refers to the perception, justified or not, that potential tourists have of a destination. Perceptions are formed based on the following:

- Marketing communication;
- Previous experience of the destination;
- Word-of-mouth recommendations; and
- The prospective tourist's immediate needs (Bennett *et al.* 2005).

➢ PRICE

Tourists are often expected to pay a fee when visiting a tourist destination. These costs would include airline transport, accommodation, fees to an attraction or resort. Prices also vary with the time of year, for example, peak season vs. off-season (Bennett *et al.* 2005).

➢ ACCESSIBILITY

The accessibility of a tourist destination refers to all those elements that affect the cost, speed, and convenience with which a tourist destination can be reached. Without transport, there will be no Tourism Industry (Bennett *et al.* 2005; Saayman, 2000).

Transportation and infrastructure are therefore, necessary to ensure that a tourist has accessibility to a destination. Accessibility means a place is easy to get to, to access. Transport links to markets are essential for the success of a destination and the following elements affect the accessibility of a destination. These elements are also important when investing in a tourism product (Bennett *et al.* 2005; George, 2004):

- Infrastructure (Previously discussed in this chapter);
- Equipment, such as size, speed and variety of public transport vehicles;
- Operational factors, for example, routes serviced, the frequency of services and prices charged;
- Government regulations and prescriptions, especially those that relate to transport operations (Bennett *et al.* 2005).
- Climate and scenery of a country (Foreign & Commonwealth office, 2007)

➢ ATTRACTIONS

Tourist attractions form the basis of tourism, without an attraction people would have little or no motivation to visit a tourist attraction. There are three categories of attractions, namely:

- Natural attractions – attractions based on natural resources, such as the Kruger National Park, Table Mountain or the Grand Canyon;

- Man-made attractions – these attractions are created by the intervention of man, such as Gold Reef City, Sun City/Lost City and the Company Gardens in Cape Town; and
- Socio-cultural attractions – attractions relate to history, religion, science, art, administration, economy, politics, culture and way of life of particular communities, for example, Robben Island, Blood River and Majuba (Bennett *et al.* 2005; Saayman, 2002; Saayman, 2000)

2.4.2 SERVICES

The availability of institutions, such as banks and telecommunication systems plays a vital role in the investment decision. South Africa's financial infrastructure consists of the SA Reserve Bank (SARB), which oversees the banking services industry in South Africa (DTI, 2003b). Electronic banking facilities are prevalent with a nationwide network of Automatic Teller Machines (ATMs) as well Internet banking facilities freely available (Burger, 2003). ABSA, First National Bank (FNB), Standard Bank, and Nedcor dominate the South African banking industry. The Financial Services Board (FSB) governs the non-banking financial services industry. South Africa has three principle financial service markets:

- The JSE Securities Exchange SA (JSE);
- The SA Futures Exchange (SAFEX); and
- The Bond Exchange of SA (BESA) (DTI, 2003b).

Telecommunications is the fastest growing industry in South Africa and it ranks 23rd in telecommunications development, and 17th in Internet-use in the world (Burger, 2003). South Africa has an extensive GSM network, working on the same frequency as the rest of Africa and Europe. There are four cell phone providers in South Africa: Vodacom, MTN, Cell-C and Virgin Mobile. The networks support GPRS countrywide and 3G, EDGE and HSDPA support is available in larger urban areas (Wikitravel, 2007), with Telkom and Neotel as the fixed line operators (ICT, 2007; DTI, 2005; Burger, 2003).

2.4.3 TOURISM GROWTH POTENTIAL

South Africa has been portrayed as the world's fastest-growing tourist destination (Kruger-Cloete, 1995). Revenue generated from tourism grew by 1.2% from, R81,8 billion in 2005 to R83,1 billion in 2006. The performance of tourism in volume and value terms resulted in an increased contribution to GDP from 7.96% in 2005 to 8.3% in 2006.

As previously mentioned there were 8,395,833 tourist arrivals to South Africa in 2006 and it is a 13.9% increase that exceeded the global average of 4.5%, which shifted South Africa from 52 to 17th position in the global tourism rankings (SA Tourism, 2006).

These statistics clearly indicate that South Africa has tourism growth potential and that it could be a good investment opportunity for foreign investors.

Each of the above characteristics plays a vital role in the decision to invest in a country such as South Africa. When the decision is made to invest, there is a variety of methods to access a country. Section 2.5 will highlight the types of FDI methods to enter a country.

2.5 TYPES OF FDI ENTRY METHODS

When a foreign country or company decides to invest in South Africa, there are 7 methods to choose from, firstly, construction of new suprastructure, M&A, JVs, equity alliances, licensing agreements, franchising agreements and lastly, contract manufacturing (Saayman & Snyman, 2005; Kim *et al.* 2002; Czinkota & Ronkainen, 2002; Brealey & Myers, 2000; Longenecker, Moore & Petty, 2000; Saayman, 1999; Sameuls, Wilkes & Brayshaw, 1999; Terblanche, 1998; Kruger-Cloete, 1995; Tate, 1992; Gray, 1987; Henderson, Trennepohl & Wert, 1984). An explanation of the types of FDI entry methods follows.

➢ CONSTRUCTION OF NEW SUPRASTRUCTURE

Foreign MNC's can penetrate markets by establishing new operations in foreign countries to produce and sell new products; for example, hotels, game lodges, guesthouses, cultural centres sport facilities and stadiums, conference facilities, resorts and casinos (Kim *et al.* 2002; Kruger-Cloete, 1995). Some companies may prefer this internal growth because it can then tailor foreign operations to its exact needs (Kim *et al.* 2002).

➢ M & A (EXTERNAL GROWTH)

Although internal growth is usually natural and economical, the process of growth may be too slow. Of late, many MNCs acquire other companies in foreign countries to penetrate foreign markets rather than to build factories that may take several years to complete. Some companies purchase parts of foreign companies to obtain a stake in foreign operations (Kim *et al.* 2002).

A *merger* come about when stakeholders and directors of two evenly sized companies come together and support the idea of combination and continued interest in the combined business (Sameuls *et al.* 1999). Mergers can be characterised as horizontal (two businesses in the same line of business), as well as vertical (these businesses are in different stages of production). The buyer expands backward toward the source of raw materials or forward in the direction of the ultimate consumer) as well as conglomerate (companies involved in unrelated lines of businesses (Brealey & Myers, 2000)). When a large company shows interest in shares of a smaller company, the directors of the smaller company advises its shareholders not to sell its shares, but these shares are sold nonetheless and neither the pre-bid shareholders nor the directors of the purchased company have any continuing interest in the enlarged business is called an *acquisition or a takeover* (Sameuls *et al.* 1999).

Table 2.1 will distinguish between M&A:

Table 2.1: Mergers and acquisitions

Merger	Acquisition
As no real change in ownership occurs, the merger should produce consolidated accounts that do no more than combine the existing balance sheets, i.e. assets remain at the value at which they appear in the separate company accounts and goodwill is not recognised since none is effectively acquired.	Goodwill must be disclosed if acquired.
Shares issued to acquire another company earned prior to the acquisition are recorded at nominal value, i.e. no share premium is recognised.	Shares issued to acquire another company are recorded at market value.
The reserves of each company are merged, i.e. those that were distributable before the merger may be distributable after the merger.	The undistributed profits of any acquired profits of any acquired company earned prior to the acquisition are frozen and are not normally available for distribution by the group.

Source: (Sameuls *et al.* 1999)

➢ JOINT VENTURES (JV)

Two or more companies may own a JV for more than a transitory period. In this collaboration, the participating partners share assets, risks, and profits. Contributions may consist of funds, technology, expertise, sales organisations, or plant and equipment (Czinkota & Ronkainen, 2002; Sameuls *et al.* 1999; Tate, 1992). Sometimes owners of a JV are from several different countries. Many MNC's penetrate foreign markets by forming a JV with companies that already exist in those markets. The basic advantage of a JV is that it enables a company to generate incremental revenue or cost savings, but they also present many complex problems due to the fact that representatives of both companies sit on the board of directors and it is may be difficult to get a consensus (Kim *et al.* 2002). This structure, then, represents an arrangement whereby MNC's remain independent but set up a new organisation jointly owned by the parent companies. MNC's are typically focused on a particular venture, project, or activity. Each will vary in terms of formality, ranging from a loose, voluntary agreement to one that involves financial shareholding (Saayman, 1999).

An example of a JV is the following: The 417-room Sir Francis Drake Hotel in San Francisco, has been purchased by SFD Partners, LLC – a JV between Oxford Lodging Advisory and Investment Group, LLC, of San Francisco Longwing Real Estate Ventures, LLC, a member of the Dubai Investment Group – from San Francisco–based Sir Francis Drake Hotel Associates, L.P., led by Kimpton Hotel and Restaurant Group, LLC, which shall continue to manage the hotel under a long-term management agreement assumed by the buyers (Hotel Online, 2005).

Public Private Partnerships (PPP) can also be regarded or seen as an example of a JV. A PPP is a contract between government institutions and a private party performs an institutional function or uses state property. In this instance, the private party may be subjected to major project financial, technical, and operational risks. There have been many tourism PPP's to date, particularly in conservation areas in South Africa, such as:

- SANParks – Kruger Park concessions;
- North West Parks – Madikwe and Pilanesberg;
- Limpopo – Manyeleti; and
- Cradle of Humankind World Heritage Site (DTI, 2005).

➢ EQUITY ALLIANCES

An equity alliance is an alliance where one company takes an equity positions in another company and in some cases, where each party takes an ownership stake in the other. The purpose of the equity ownership is to solidify a collaborative contract so that it is difficult to dissolve, particularly if the ownership is large enough to secure a board membership for the investigating company. The airline industry epitomises the use of equity alliances (Kim *et al.* 2002). In the Republic of South Africa, the Government is committed to furthering transformation and BEE Charter and Scorecard in the tourism sector.

The key areas of focussed empowerment and transformation, in the context of this Scorecard, are:

- Ownership;
- Management;
- Employment equity;
- Skills development;
- Preferential procurement;
- Enterprise development; and
- Corporate social investment (South African Government Information, 2005).

➢ LICENSING AGREEMENTS

A licensing agreement is an agreement where an MNC (the licensor) allows a foreign company (the licensee) to produce its products in a foreign country in exchange for royalties, fees and other forms of compensation. There are several benefits for the licensor and the licensee. The benefits for the licensor include a relatively small amount of investment, an opportunity to penetrate foreign markets, lower political and financial risks and an easy way to circumvent foreign market entry restrictions. The licensee benefits from the following:

- A cheap way to obtain new technology, and
- An easy way to diversify into other product lines and opportunity to capitalise on its unique positions, such as the channels of distribution, the financial resources, and the marketing know-how (Kim *et al.* 2002).

A licensing agreement allows a foreign company to manufacture the domestic company's product in its own country, for example, Coca Cola. Licensing may be an attractive option if a

significant domestic or foreign restrictions on foreign investment is present (Henderson *et al.* 1984).

- **FRANCHISING AGREEMENTS**

Those are agreements where the franchiser allows a franchisee (foreign company) to sell products or services under a highly publicised brand name and a well-proven set of procedures. Under this arrangement, the franchiser allows the franchisee certain privileges, such as to sell products or services, but also assists in the operation of the business on a continuing basis, for example, the Hilton Hotel (Kim *et al.* 2002; Terblance, 1998). The highly standardised nature of some products and services, and the strength of the brands involved, have resulted in franchising becoming a dominant feature of some operations in the hospitality sector. Business format franchising entails the franchiser granting a license to local operators (franchisees) to use the brand name, product, service and associated goodwill for a specific period of time. Franchisees are supplied with a complete, proven, business concept together with the expertise, thereby removing from the franchisee some of the uncertainties of setting up a business (Saayman & Snyman, 2005; Longenecker *et al.* 2000; Saayman, 1999). Examples of franchises are fast foods, such as McDonalds, and real estates, such as Pam Golding, or RE/MAX. Tourism Industry examples are Rennies Travel, Protea hotels, Kentucky Fried Chicken, Nando's and McDonalds Restaurants (Saayman & Snyman, 2005; Tate, 1992).

- **CONTRACT MANUFACTURING**

According to Czinkota & Ronkainen (2002), contract manufacturing means the outsourcing of the actual production of goods so that the corporation can focus on research, development, and marketing. It occurs when MNCs contract with a foreign manufacturer to produce products for them according to the companies' specifications. The contract manufacturer does not market the products it produces. Instead, these MNCs market the products under its own brand name. Thus, the buying public normally does not know that the selling company did not actually produce the product (Kim *et al.* 2002).

As one can see, there are a number of ways for companies or individuals to invest in a foreign country, however, certain advantages and disadvantages occur. It is important to consider the advantages and disadvantages of FDI for the populace and the economy of South Africa (Gray, 1987). The latter will be discussed in the following section of this chapter.

2.6 ADVANTAGES AND DISADVANTAGES OF FDI

Several advantages and disadvantages exist of FDI into a country. The following will cast light on why countries appear positive or negative about FDI.

2.6.1 ADVANTAGES OF FDI

A host country can benefit a lot from FDI, which would improve the economic growth of a country (Farrell, 2004). The following are advantages of FDI into a country:

- FDI encourages the transfer of technology and managerial expertise.
- It increases both national employment and domestic income.
- It provides local workers with an opportunity to learn managerial skills.
- It contributes to tax revenues and helps balance the international balance of payments (Asheghian, 2004; Bandelj, 2002; Kim *et al.* 2002; Urata & Kawai, 2000; De Mello, 1997; Gray, 1987).
- FDI facilitate the host countries to participate in various networks such as sales and procurement networks of foreign investors (Kim *et al.* 2002; Urata & Kawai, 2000).
- FDI enhances economic growth (Asheghian, 2004).
- Obtaining local market shares by a foreign company and/or individuals (Szanyi, 1998).
- Foreign technology helps to increase production and to reduce error rates as well as improving the quality of the product (Cotton & Ramachandran, 2001).

2.6.2 DISADVANTAGES OF FDI

The following are disadvantages of FDI into a country:

- Government costs can rise due to incentives made to attract investment, that is, governments are giving away money for investment that would have been made nonetheless (Farrell, 2004).
- Increase in corruption and bribery (Van Vuuren, 2002; Bhinda *et al.* 1999).
- Foreign investors displace local products with their own brand products.
- By enhancing important or controlling anticompetitive practises because of competition, policies of host countries can be changed to lower entry barriers.
- FDI can result in the loss of tax revenue (Szanyi, 1998).

- Host countries can interfere with the investor's profit-maximizing efforts by resisting certain FDI attempts in favour of alternatives with which they are connected (Bandelj, 2002).
- Technology introduced to a host country is often inappropriate and too capital intensive, especially where unemployment runs high (Cotton & Ramachandran, 2001).
- FDI brings about the loss of political and economic sovereignty.
- FDI controls key industries and export markets.
- FDI exploits local natural resources and unskilled workers.
- It undermines indigenous cultures and societies by imposing Western values and lifestyles on developing countries (Kim *et al.* 2002).

It seems that, while FDI has the potential to contribute positively to development, there is no guarantee that it will have no harmful impact on host countries (Kim *et al.* 2002).

2.7 CONCLUSION

This chapter indicated the main determinants and a country's tourism characteristics that will influence FDI therefore reaching objective two of this study. To explain the choice of FDI, it is necessary to take into consideration location specific factors of the host countries. These include variables such as micro determinants (markets size and growth, labour costs, host government policies, tariffs and trade barriers as well as the product life cycle) as well as macro determinants (openness and exports, exchange rates, inflation rates, budget deficits, investment and infrastructure and political instability) as well as tourism characteristics (types of tourism products, components of the tourism product, and the tourism growth potential of the host country). Where such factors favour a foreign, rather than a domestic location, then the FDI route will be chosen in place of export. Most studies indicated that the size of market, political instability and labour cost were the most important determinants of investment abroad (Asheghian, 2004; Wang & Swain, 1997).

FDI is an important aspect for the economy and the Tourism Industry of South Africa and it is also becoming a much-debated topic therefore, the role of the South African government and other institutions with respect to FDI will be the focus of Chapter 3.

3 THE ROLE OF THE SOUTH AFRICAN GOVERNMENT AND INSTITUTIONS IN FDI

"Men are powerless to secure the future; institutions alone fix the destinies of nations."

Napoleon

3.1 INTRODUCTION

Tourism has long been an important part of our lifestyle, but only recently has it received increased attention for its role in determining economic importance (Viviers, Saayman & Saayman, 2003). Tourism is also one of the most important and fastest growing economic sectors for Southern Africa (ACTSA, 1998), for example, statistics that were compiled by Leitner (2003), indicated that the amount of money invested in Madikwe Game Reserve, in the North West Province, at the end of 2004 was an estimated R250 million.

In South Africa, even politicians started to recognise the enormous job creation, infrastructure, and wealth generating ability of tourism, and the sustainable role it can play in the country's economic and social progress (Viviers *et al.* 2003). An example of the contribution the Tourism Industry has made is to the guesthouse sector. The guesthouse sector has become an important element of the Tourism Industry and regionally has a modest (yet significant) impact on the economy. It was estimated that by October 2002, 26 000 developed guesthouses in South Africa had been established. The development of this guesthouse industry made an economic contribution of some R26 billion to the general economy of South Africa. Van Der Westhuizen (2002) suggests that if the average guesthouse in South Africa each employs three people, employment opportunities for 78 000 people have been created.

The Travel and Tourism Industry in South Africa is a major contributor to the economy and presently accounts for 8,2% of GDP. It is one of the few industries showing steady growth over the past decade, and the World Travel and Tourism Council (WTTC) forecasted that the Tourism Industry would continue to grow steadily through the present decade, with the following projections in its baseline scenario:

- Government spending is forecasted to grow to ZAR4,9 billion;

- The share of private capital expenditure attributed to travel and tourism will rise at about 5% per year, focused not only on major hotel and resort development, but also on game parks and guesthouses;
- Foreign visitor spending will continue to grow at more than 6% per year for the first decade of the 21st century; and
- Capital investment should reach R47.8 billion by 2010 (DTI, 2003b).

A country's success in attracting high levels of FDI involves particular characteristics and location of the country concerned, such as those of South Africa that has a unique amalgamation of climate, scenery in addition to a diverse cultural heritage. Furthermore, it is suggested that South Africa will become a major international travel and tourism force because of the change in the market appeal of nature, culture, wilderness, unique heritage, as well as patrimony. At this stage, the Tourism Industry in South Africa is centred on a few natural (Table Mountain, Coastline, Kruger National Park, Drakensberg) or man-made attractions (Sun City / Lost City, Casino resorts, cultural venues), which are situated in only a few provinces (Saayman & Snyman, 2003). Even so there are also regional aspects that contribute to South Africa's attractiveness as an investment destination (Hawkins & Lockwood, 2001).

South Africa, however, is considered to be a largely untapped market that holds numerous lucrative prospects for the potential investor. Because of the above-mentioned attractions, South Africa could be a destination that would attract numerous potential investors (Gelb & Black, 2004).

As a result of the above, the significance of South Africa's international position points to the responsibility of policy-making authorities in maintaining sound economic fundamentals and policies. In addition, authorities have to manage market psychology, which includes practising generally responsible politics together with good public governance, thus influencing perceptions of political and other types of risk, and reducing the total cost of doing business in South Africa (Du Toit & Moolman, 2003).

The purpose of this chapter is to achieve objectives 1 and 3 of the study, which is respectively to establish what South Africa has to offer to foreign investors as well as to determine the role that the South African government and institutions play with respect to FDI.

3.2 THE ROLE OF THE SOUTH AFRICAN GOVERNMENT IN FDI

In the White Paper on Tourism (SA, 1996a) the government of South Africa acknowledges the importance of attracting FDI in order to achieve the growth and development objectives of the tourism sector. FDI will increase competition and improve standards as well as create employment and facilitate economic growth. FDI will not be encouraged in Small, Micro-Enterprises (SME's) or in the ancillary services sector that are clearly within the reach of the local entrepreneurs and businesses. Concessions offered to investors, such as franchise arrangements, package tour arrangements and other forms of transfer provision should ensure that substantial economic leakages do not occur and that acceptable social standards apply.

The government hopes to capture the Tourism Industry's significant foreign exchange earnings and employment generation benefits. Yet the role of FDI in the industry remains controversial, based on suspicions regarding environmental impacts and the "exploitation" of resources and workers in investments that function in relative isolation from the economy as a whole (despite government's oft-articulated preferences for high value foreign tourism). Investment promotion in the Tourism Industry thus often has to balance potential gains from tourism investment against government preferences for "value-adding' activities – usually a preference of manufacturing over services. In addition, IPA's often shy away from tourism investment promotion to avoid real or perceived conflicts with tourism ministries and/or tourism marketing boards (Mueller, 2003).

3.3 INVESTMENT POLICY AND LEGISLATION

The government of South Africa is busy compiling a FDI strategy. Because the strategy formulation is still in progress, the study cannot discuss the content of this strategy, but the report highlights a situation analysis for FDI and how South Africa can attract more FDI in addition to the role that IPA's are playing in advocating an investment promotion policy (Timol, 2007).

No government approval is required for foreign investors to establish a new business in South Africa apart from the approval required under the exchange control regulations. The investor will merely be required to appoint consultants/auditors/legal advisors to register a company on his/her behalf. The company should be registered within 21days; it must also be registered for the payment of relevant taxes. In South Africa, there are

currently no locations where a foreign-owned business is prohibited or where investment is officially discouraged. The official documents, which are to be filled out by an investor, are simple and understandable. The whole process from beginning to end may take on average six months but if undertaken through TISA it can be finalised in as little as one month. TISA is an organisation to help foreign investors with issues relating to exports and investment. South Africa actively encourages direct and indirect investment by non-residents persons and companies. Virtually all business activities are open to foreign investors and there are generally no restrictions on FDI. Restrictions would usually relate to a particular industry and be applicable both to residents and to non-residents alike. Very few restrictions apply only to foreign companies, for example, a foreign bank establishing a branch in SA may be required to employ a certain minimum number of local residents in order to obtain a banking license, and may be obliged to have a minimum capital base. Some restrictions also exist regarding the ownership of immovable property by foreign companies. For example, foreign companies are required to register as external companies before immovable property may be registered in their names (Barnard, 2004).

In terms of Article 25:1 of the Constitution (1996b), no one may be deprived of property except in terms of law of general application, and no law may permit arbitrary deprivation of property. The rest of the contents of the Article are as follows:

(2) Property may be expropriated only in terms of law of general application
   a. for a public purpose or in the public interest; and
   b. subject to compensation, the amount of which and the time and manner of payment of which have either been agreed to by those affected or decided or approved by a court.

(3) The amount of the compensation and the time and manner of payment must be just and equitable, reflecting an equitable balance between the public interest and the interests of those affected, having regard to all relevant circumstances, including:
   a. the current use of the property;
   b. the history of the acquisition and use of the property;
   c. the market value of the property;
   d. the extent of direct state investment and subsidy in the acquisition and beneficial capital improvement of the property; and
   e. the purpose of the expropriation.

(4) For the purposes of this section

a. the public interest includes the nation's commitment to land reform, and to reforms to bring about equitable access to all South Africa's natural resources; and
b. property is not limited to land.

(5) The state must take reasonable legislative and other measures, within its available resources, to foster conditions, which enable citizens to gain access to land on an equitable basis.

(6) A person or community whose tenure of land is legally insecure as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to tenure which is legally secure or to comparable redress.

(7) A person or community dispossessed of property after 19 June 1913 as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to restitution of that property or to equitable redress.

(8) No provision of this section may impede the state from taking legislative and other measures to achieve land, water and related reform, in order to redress the results of past racial discrimination, provided that any departure from the provisions of this section is in accordance with the provisions of section 36(1).

(9) Parliament must enact the legislation referred to in subsection (6).

Any attempt to design policy prescriptions that will result in an increase in FDI into South Africa needs to be based on an understanding of what motivates foreign investors to make such investments in foreign countries. Rational investors are likely to base their decisions on where to invest upon the quality of the investment opportunity, upon the anticipated returns, and on the ease with which the investment can take place, adjusted for the foreseeable and unforeseeable risks that will prevent such returns from being realised. Policies aimed at increasing the level of FDI need to attempt to market opportunities and raise the potential returns, while reducing obstacles and risks associated with such investment (Hawkins & Lockwood, 2001).

International travel and tourism consultants, who indicate that success in the increasingly competitive tourism market depends on recognising government's role in various areas, echo these sentiments. Government should:

- Provide a framework for a coherent and focused policy and strategy for tourism development;
- Broaden the tourism experience and provide a diversity of products;
- Create a positive climate for foreign investment in tourism and provide fiscal incentives for private sector development;
- Procure donor funds for improving infrastructure or act as a catalyst in obtaining donor funds (most of the world's financial resources for biodiversity conservation and development flow through government channels (Kruger-Cloete, 1995)).

3.3.1 FEATURES OF THE SOUTH AFRICAN INVESTMENT POLICY

The following features are specifically addressed in the South African investment policy (Vickers, 2002):

- **RIGHTS TO ENTRY AND ESTABLISHMENT:**

  The South African government actively encourages FDI in the South African economy. There are generally no restrictions on the type or extent of investments available to foreigners. Restrictions would usually relate to a particular industry. Restrictions also exist regarding the ownership of immovable property by foreign companies.

- **INVESTOR PROTECTION, GUARANTEES AND INSURANCE:**

  South Africa has signed over 30 bilateral investment treaties (BIT) that extend protection to both portfolio and direct investment. South Africa is also a signatory to the World Bank's Multilateral Investment Guarantee Agency (MIGA). The Overseas Private Investment Corporation (OPIC) also has commitments in South Africa.

- **DISPUTE SETTLING MECHANISMS:**

  South Africa is a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards, but is not a member of the International Centre for the Settlement of Investment Disputes.

- **RESTRICTIONS ON OUTWARD CAPITAL FLOWS:**

  There are no exchange controls on foreign investors or restrictions on the repatriation of profits and dividends. Royalties, license fees, and certain other remittances require approval of the SARB.

- **TRANSFER PRICING:**

South Africa has no laws regulating transfer pricing. The government deals with this practice in large companies (such as BMW) on a case-by-case approach.

- **DOUBLE TAXATION TREATIES:**

South Africa's double taxation treaties encompass most of Europe (also Eastern European countries) as well as a number of African and Asian countries.

- **REQUIREMENTS:**

The requirements have been previously discussed (cf. 3.3).

- **INVESTMENT INCENTIVES:**

The DTI has developed a number of incentives schemes and continues to introduce new ones (cf. 3.4.2 & 3.5.1).

- **SOUTH AFRICA'S INDUSTRIAL DEVELOPMENT PROGRAMME:**

South Africa's industrial development programme is based on PPP's, Spatial Development Initiatives (SDI's), Industrial Development Zones (IDZ's) and cluster studies (Vickers, 2002).

TISA has identified the following major investment opportunities for tourism:

- SDI's (Anon, 2001). - The South African government also works closely with other countries to attract investment, for example, the Lubombo Spatial Development Initiative (LSDI). During the Southern Africa Economic Summit, 1999 that was held in Durban, the governments of South Africa, and Mozambique, as well as Swaziland's King Mswati III, signed an agreement, known as the LSDI. This project promotes and develops tourism and agriculture. The King indicated that the signing of the document is proof of a way of attracting investment. One project is to inhibit malaria, which plays a small, yet significant role in the decision of foreign investment (Bridgraj, 1999). As a result of the LSDI, the then-Minister of DEAT, Mr Vali Moosa announced in December 2003 an investment of R432 million into eco-tourism in the Greater St Lucia Wetland Park in KwaZulu-Natal (Mgadi, 2004). Recently, the LSDI received a financial injection, in the form of an $80 million (equivalent to R494 million) budget. The money will be allocated to the development of tourism infrastructure as well as to roads, communications and electric power. Further there are plans to link South Africa's Tembe Park with the

Elephant Reserve in Maputo (Mozambique) as well as to extend the Ponto do Ouro in Mozambique along with the Great St Lucia Wetlands Park (Sandras, 2004),

- Wild Coast (amenities, infrastructure and information centres), Coast to coast (amenities, infrastructure and information centres) and Barberton (amenities, infrastructure and information centres) (Anon, 2001).
- National (23) (SANParks, 2006) and Provincial Parks (more than a hundred), and;
- Priority Areas of Tourism Infrastructure Investment (PATIIS) will be formed, such as the Phalaborwa, Nelspruit and Pietersburg (roads, amenities and information centres), Soweto (road, amenities, attractions and information centres), and Cape Town environs (roads, amenities, information centres and attractions), Greater Addo (roads, amenities and information centres), and the Kalahari Triangle (infrastructure and tourism routes) (Anon, 2001).

3.4 STRATEGIES THAT INFLUENCE FDI

According to TISA, (2001), the major policy framework that has an influence on FDI is the macroeconomic framework: GEAR

3.4.1 MACROECONOMIC POLICY

According to the Government of South Africa (as quoted by Gelb & Black, 2004), GEAR originated in response to a capital account setback and FDI was seen as being by far preferable to unpredictable portfolio flows as a route to concentrate on savings deficiencies.

The core elements of GEAR are:

- Fiscal deficit reduction to contain debt service obligations, counter inflation and free resources for FDI;
- An exchange rate policy to keep the real effective rate stable at a competitive level;
- Consistent monetary policy to prevent a resurgence of inflation;
- Restructuring of state assets to optimise investment resources;
- An expansionary infrastructure programme to address service deficiencies and backlogs; and
- A commitment to the implementation of stable and coordinated policies.

The GEAR strategy has been successful in stabilising major macro variables. These include the inflation rate, the budget deficit relative to GDP, as well as the balance of payments. Growth has been lower than projected but, even so, the economy has continued to grow despite difficult conditions after the 1998 financial crisis, and the recent global slowdown. Growth was predicted to surpass most other emerging economies in 2002 and hence to weather the post-September 11 financial storm.

3.4.2 INDUSTRIAL STRATEGY

South Africa's Industrial Strategy, as articulated by the Department of Trade and Industry (DTI), is focussed on increasing value addition within the South African economy, lowering costs, and shifting the economy into more knowledge intensive activities. South Africa is endowed with raw materials, cheap energy, and a solid infrastructure, which provides a competitive advantage in a range of processing activities. However, there have been significant shifts towards more high-value added activities, supported by supply-side measures. A good example of this is the impact the Motor Industry Development Programme (MIDP) has had on attracting major international players and upgrading the automotive industry. More recently, the focus of industrial strategy has shifted toward the creation of a knowledge economy. This strategy seeks to address competitiveness directly through encouraging underprovided activities such as skills, research and development and the deeper penetration of information technologies into the economy. South Africa's industrial strategy generates opportunities for FDI in a range of activities. These include mineral processing, energy-intensive investments, as well as increasingly in high-tech and services sectors (TISA, 2001).

The Industrial Strategy is actively supported by selected investment incentives. These include:

- **The Strategic Investment Programme (SIP)** – a tax allowance for large investments with strong employment and linkage effects.
- **The Small and Medium Enterprise Development Programme (SMEDP)** – a cash grant for small and medium manufacturing, tourism, high-value agriculture and aquaculture enterprises.
- **Skills Support Programme (SSP)** – a cash grant to support training of employees.
- **Critical Infrastructure Fund (CIF)** – a fund that can underwrite part of the cost of infrastructure undertaken by a local authority, which is necessary to ensure a particular investment.
- **Foreign Investment Grant (FIG)** – to provide assistance with relocation costs.

3.4.3 TRADE STRATEGY

South Africa's trade strategy has concentrated on gaining preferential access to important markets alongside a tariff phase down. Access to the European Union (EU) and the Southern African Development Community (SADC) markets has been facilitated through the conclusion of Free Trade Agreements (FTA's). The next phase of this strategy encompasses building strong trade relations with major emerging markets, such as Brazil, India, and Nigeria. The access afforded to the United States market by the African Growth and Opportunity Act (AGOA) has served to further strengthen this strategy. South Africa is already beginning to reap the benefits of AGOA with large increases in exports to the United States in the first few months of meeting the qualification criteria (in March 2001).

The trade access negotiated by, or afforded to, South Africa creates significant opportunities for FDI in order to take advantage of preferential access to major markets (TISA, 2001).

3.4.4 MICROECONOMIC REFORMS

While the macro level reforms identified above have resulted in a sound macroeconomy, the focus of policy has shifted towards addressing issues that cannot be adequately dealt with at the macro level. These included the following:

- Restructuring and privatisation of state assets to ensure greater economic efficiencies. This applies particularly to the transport parastatals.
- Addressing unemployment more directly through some form of wage or employment support, as well as revisiting South Africa's labour legislation.
- Improving skills levels to increase employment, as well as address the skills needs of industry through reform of the immigration framework.

These reforms are aimed at lowering the costs of doing business, lowering levels of unemployment and increasing industry access to the skills it needs (TISA, 2001).

3.4.5 *AsgiSA*

According to Bell, (2006) GEAR replaced the RDP (Reconstruction and Development Programme), and now the focus has shifted to AsgiSA.

AsgiSA, unlike Gear, is intended to be a coordinating framework for different policy endeavours and aims to realise the RDP's vision by different means. The alternative framework proposed involves a move away from a blanket prescription and towards a more nuanced strategy that focuses on eliminating the constraints that prevent particular countries from growing faster. It is clear that the core challenge lies in targeting the biggest distortions of economic growth and seeking to eliminate the worst binding constraints (Taljaard, 2006).

AsgiSA had identified key constraints mitigating against achieving desired growth rates. Removing these constraints would promote momentum.

Key constraints identified by AsgiSA (2007), were:

- The relatively volatility of the currency;
- The cost, efficiency and capacity of the national logistics system;
- Shortages of suitably skilled labour, and the spatial distortions of apartheid affecting low-skilled labour costs;
- Barriers to entry, limits to competition and limited new investment opportunities;
- The regulatory environment and the burden on SME's; and
- Deficiencies in state organisation, capacity, and leadership.

The following interventions are required in the categories below:

- **MACRO-ECONOMY**

  The following actions are needed for sustained accelerated growth:

  - Reducing currency volatility via progressive improvements in macroeconomic policy management;
  - Ensuring inflation targeting continues to support growth;
  - Selecting project and programmes to ensure spending efficiency and to eliminate government dissaving;
  - Continuing improvements in budgeting to enhance the environment for economic growth; and
  - Remove obstacles to invest (AsgiSA, 2007).

- **INFRASTRUCTURE**

  The following action is required regarding infrastructure:

  - A holistic framework approach is needed for the improvement of infrastructure.

➢ SECTOR AND INDUSTRIAL STRATEGIES

The following actions were identified regarding sector and industrial strategies:

- Defining procedures for allocating incentives;
- Ensuring adequate funding for skills programmes; as well as
- Negotiating specific packages with Telkom that are internationally competitive.

➢ SKILLS AND EDUCATION

Education and skills provision are seen as a fundamental responsibility of the South African government. The efforts of the department education and labour continue to improve the quality, relevance, and effectiveness of the education and training system.

The following actions were identified regarding skills and education:

- Greater co-operation between government, the private sector and the community to remove barriers such as transport costs, safety in schools, poverty for example;
- Improvement of quality of education in schools;
- Funding and incentives are needed to encourage young graduates; as well as
- Monitoring, evaluating, co-ordinating, and the targeted prioritisation of skills requirements require systematic consideration by the government.

➢ THE SECOND ECONOMY

The following actions were identified regarding second economy initiatives:

- An Expanded Public Works Programme (EPWP) to provide jobs in infrastructure and social services;
- Supporting micro enterprises to raise incomes and generating more opportunities for poor households;
- Measures, primarily skills development and improved labour-market information, to make it easier for the unemployed and poor to participate in the economy;
- Unlocking productive assets by focussing on land access and use, agriculture and agrarian reform and blue-collar skills;
- Implementing the BEE Codes, especially in areas that can benefit the majority of the population; and
- Mobilising and linking co-operatives to resources and to the First Economy, as well as providing them with skills and resources.

➢ PUBLIC ADMINISTRATION

The following actions were identified regarding public administration:

- A firm commitment must be secured to implement the core building blocks of the Department of Transport's Public Transport Strategy, namely strong local public sector network control and management, and an understanding of the intended time-frames;
- A micro-credit assessment is recommended, using information about the sophistication of applicants to streamline requirements and processes;
- Reasons for rejecting, refusing or withdrawing applications, regarding mining licensing and conversion, must be investigated, and that regional offices embark on a 'fit-for-purpose' analysis of staffing structures;
- Institutional and other mechanisms should be investigated to measure the effect of legislation at concept stage, including allocating responsibility for this function;
- The Departments of Agriculture, Public Service Administration and the South African Management Development Institute, should establish a mentoring and training programme, while a holistic recruitment and retention strategy must be developed by the Departments of Agriculture and Public Service Administration; and
- Strengthening local economic development.

AsgiSA is helping to change the South African mindset. It is opening possibilities for success in the fight against poverty and unemployment that seemed impossible (AsgiSA, 2007).

The following section, 3.5 will focus on FDI promotion and what the SA government does to attract FDI as well as what they can do to enhance FDI.

3.5 FDI PROMOTION

As mentioned before, this chapter focuses on the role of the government in FDI, however, it is worth mentioning that most of the provincial tourism authorities make use of IPA's to promote FDI.

Figure 3.1 illustrates the role of IPA's in the investment promotion system.

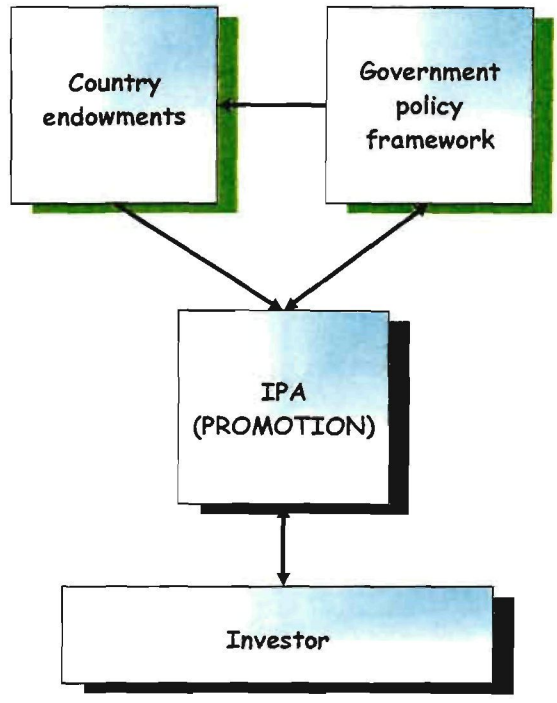

Figure 3.1: Position of IPA's in the investment promotion system
(Source: Naudé & Van Rijnsoever, 2003)

Table 3.1 (below) will indicate the regional IPA's available in the different provinces:

Table 3.1: Regional investment promotion agencies

Investment Promotion Agency	Description
Eastern Cape Development Corporation (ECDC)	Official economic development agency for the government of the Eastern Cape province. Its vision is to be a primary contributor to the economic prosperity of the Eastern Cape through private sector development (South Africa info, 2007).
Free State Development Corporation (FDC)	The FDC provides a broad range of business services and development initiatives in high opportunity sectors. Its primary focus is on Small, Medium, and Micro Enterprises (SMMEs) (South Africa info, 2007).
Gauteng Economic Development Agency (GEDA) & Gauteng Tourism Authority (GTA)	GEDA is an investor's first port of call for developing business relations in Gauteng and the rest of Africa. GEDA is Gauteng's official economic, investment and trade promotion agency and its mission is to promote the economic growth and development of the province (South Africa info, 2007).

	GTA also promotes investment (Netshishivhe, 2007).
Trade and Investment KwaZulu-Natal (TIK)	TIK aims to identify and package investment and export trade opportunities in the province, provide a professional and comprehensive service to potential and current investors and exporters, and to ensure easy access to investment and export trade opportunities and sustained aftercare (South Africa info, 2007).
Trade and Investment Limpopo (TIL)	TIL was established in September 1996 as the official investment and trade promotion and facilitation agency of the Limpopo provincial government. It is the leading business development network for local companies seeking international expansion or new markets in Africa. For the overseas investor TIL offers a platform to enter the Limpopo, South Africa and the rest of Africa (South Africa info, 2007). TIL is the official IPA for tourism. TIL has an open policy towards FDI, it is all treated case by case; however as an IPA, TIL's mandate is to attract inward investment, therefore all investments are welcomed, however, the development of BEE partnerships are encouraged (Khan, 2007).
Mpumalanga Investment Initiative (MII)	MII is a provincially established agency focusing on trade and investment promotion and assisting potential investors in enjoying a problem free relocation to the province (South Africa info, 2007).
Northern Cape Province	Presentation of investment opportunities in areas such as mining and minerals, fishing and mariculture, agroprocessing and tourism (South Africa info, 2007). The Northern Cape Province is also in the process of compiling a strategy to increase foreign investment (Van Schalkwyk, 2007).
North West Province (NWP)	Invest North West, the official trade and investment promotion agency for the North West province (South Africa info, 2007). Invest North West has a FDI strategy for the NWP titled "Investing Together". It is a comprehensive document that provides detailed information across all three levels of the strategic management process. However, the strategy is not

	biased to a particular economic sector and does not emphasise the attraction of FDI to a particular sector but rather provides guidance on how to attract FDI into all of the 4 focus economic sectors. The strategy is in the process of being updated (Bakhas, 2007).
Western Cape Investment and Trade Promotion Agency (WESGRO)	This rapidly growing regional economy in South Africa offers a diverse range of exciting investment opportunities on one of the world's main trade routes. With a world-class business and physical infrastructure, the Western Cape is an ideal location for businesses seeking to serve African markets (South Africa info, 2007). There is no particular official policy to foreign investors - the Western Cape provincial government welcomes all foreign investors, and investment promotion agencies like WESGRO are there to help and facilitate foreign investments with investors. WESGRO for example is there to help facilitate foreign investors whether it be finding suitable land or premises or a joint-venture partnership or even assisting foreign investors with work permits. WESGRO also set up meetings with potential investors and relevant provincial government officials and in the case of an investor needing funding, WESGRO would help them access funding that is available through government or other funding agencies (Meyer, 2006).

The services and investment opportunities offered by these IPA's should be communicated to foreign investors as indicated in Table 3.1.

3.5.1 WHAT THE SOUTH AFRICAN GOVERNMENT DOES TO ATTRACT FDI

As mentioned before, FDI can play an important role in modernising the national economy and promoting growth. Because of the former, governments provide incentives to foreign firms to set up companies in for example South Africa. The rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects which include productivity gains, technology transfers, the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international

production networks and access to markets (TISA, 2007; Alfaro, Chanda, Kalemli-Ozcan & Sayek, 2004).

The government of South Africa offers incentives to foreign, for example:

- **Foreign Investment Grants (FIG):** The grant compensates foreign entrepreneurs for the qualifying costs of moving new machinery and equipment to South Africa. A maximum of R3 million per project is allowed;
- **Critical Investment Fund (CIF):** Large investments in transportation systems, electricity and water distribution, sewerage systems, waste storage, telecommunication networks and fuel supply systems may qualify for funding of 10% to 30% of the development costs;
- **Strategic Industrial Projects (SIP) incentive package:** Allowances, in the form of tax relief, aim to lower the cost of investing critical industrial projects in South Africa. Proposed projects should be worth R50 million or more. A wide range of manufacturing activities are included, as are various computer-related and research development activities;
- **Skills Support Programme (SSP):** This is a grant for skills development aimed at encouraging investment in training and introducing new advanced skills. Grants may be given to companies engaged in manufacturing, high value agricultural projects, agro-processing, aquaculture, biotechnology, tourism, information technology, recycling and cultural industries. Up to 50% of the training costs, and a maximum of 30% of total salaries of qualifying companies can be granted (GCIS, 2003).

Other forms of investment incentives offered by the South African Government are highlighted in Table 3.2.

Table 3.2: Incentives offered by the South Africa Government

FUND	BENEFIT	CONTACT	CRITERIA
Technology and Human Resources for Industry programme (THRIP)	Subsidies up to 50% on development costs incurred at academic institutions by private sector firms.	National Research Foundation	Project must involve a tertiary institution. Development of new technologies and human resources.
Support Programme for Industrial Innovation (SPII)	Matching scheme: a grant of 50% of direct cost incurred in development. Maximum grant of R1.5m per project. Partnership scheme: 50% of the direct	DTI	Development must be significant technological advancement. Must have a commercial advantage over existing products.

	cost incurred in development, no upper limit.		
FIG	Foreign entities may qualify for grant up to a maximum of R3m.	DTI	Companies operating in manufacturing and tourism sectors with foreign shareholding of at least 50%. Only new machinery and equipment acquired from abroad and required to establish a manufacturing project in SA.
Export Marketing and Investment Assistance (EMIA)	Assistance for: Primary market research FDI research. Participation in national/mini exhibition areas. Inward and outward trade missions.	DTI	Firm must have export production capacity. Extent of export marketing plan. Type of product for export and local sales performance. Level of labour absorption, location and technological requirements. Sector in which venture operates or planned. Membership of an export council (not compulsory but preferable).
SMEDP	Cash grant up to: 10% of qualifying assets up to R5m 25% for projects with qualifying fixed assets between R5-R15m 35% for projects with qualifying fixed assets above R15m.	DTI	Investments of less than R100m. Local and foreign investors engaged in: Manufacturing; High-value agricultural projects; Agro-processing; Aquaculture; Biotechnology; Tourism; ICT; Recycling; and Cultural sector.
CIF	Funding of 10-30% of qualifying infrastructure development costs.	DTI	Ability to provide 70-90% of funds required to complete infrastructure development in the following areas: Transport systems; Electricity transmissions and distribution systems; Telecommunication networks; Water storage, purification systems; Sewage systems; Waste storage, disposal and treatment systems;

			and Fuel supply systems.
Accelerated Depreciation for Urban Development Zones	20% straight-line depreciation allowance over 5 years 17-year write-off period with a 20% write-off in the first year and 5% write-off thereafter.	The National Treasury, and Cape Town Partnerships	Development in: Areas with high population carrying capacity; Central business district or inner city; and Areas with developed urban transport infrastructure for trains, buses and taxis.
SSP	Maximum grant of 50% of training costs, development of curriculum and/or land and buildings related to training. Maximum grant of 30% of total payroll. Capital cost of up to R3m provided for training equipment of approved training school.	DTI	Minimum investment R50m Manufacturing, IT and R&D activities. Must show long-term commercial viability. SSP is an enhancement of the SMEPD: Companies that qualify for SMEPD can qualify for SPP.
Wage Incentive/Learnership Agreement	R25 000 deduction from taxable income for the employer following a signed learnership agreement. Further R25 000 deduction for employer after learner's completion of learnership. Deduction of R50 000 for employer on the learner's completion of each level the National Qualification Framework (NQF).	DTI	Deductions are made when the learnership agreements are signed and when the employee completes the learnerships or levels of the NQF.
Accelerated Depreciation Allowance for Manufacturing Investment	New manufacturing assets will be depreciated over 4years as opposed to the 5 year period previously allowed.	South African Revenue Services (SARS)	This is available countrywide for local and foreign investors engaged in manufacturing.

Source: WESGRO, (2006)

There are a number of incentives offered to foreign investors, however, only a few apply to tourism, as indicated in Table 3.2. It is important that research should be conducted to improve tourism incentives. If more tourism incentives can be offered to foreign investors, it can lead to positive tourism investments.

3.5.2 WHAT SHOULD THE SOUTH AFRICAN GOVERNMENT DO TO ATTRACT FDI

Any attempt to design prescriptions that result in an increase in FDI into South Africa needs to be based on an understanding of what motivates investors to invest in foreign countries. Rational investors are likely to base their decisions on where to invest upon the quality of the foreign investment opportunity, the anticipated returns, and the ease with which the investment can take place, adjusted for the foreseeable and unforeseeable risks that would prevent such returns from being realised. Policies aimed at increasing the level of FDI need to attempt to market opportunities and raise potential returns, while reducing obstacles and risks associated with such investments (Hawkins & Lockwood, 2001).

According to IISD (2002), investors are looking for an investor climate that provides stability and predictability over a long period. Kim *et al.* (2002) indicated that the best way to improve a country's investment climate is to remove obstacles that inhibit FDI, although some cannot be avoided, for example, dire roads, primitive port facilities, and the lack of local capital or qualified local technicians. All of these can constitute unavoidable obstacles to FDI.

According to the White Paper on Tourism (SA, 1996a), the government should establish a climate of political stability, economic growth and profitability, and provide transparent, stable, and consistent policies to attract foreign investment. The government should encourage foreign investments that meet the following criteria:

- Investors and companies that will develop, promote and implement responsible tourism;
- Investors that invest in rural communities and less developed geographic areas;
- Investors that develop products to help diversify the tourism product, for example, cruise tourism, ecotourism, heritage tourism, Afro-tourism, and the like;
- Investments that will result in the transfer of skills and technology to locals;
- JV's with local partners and local communities;
- Investors in tourism plant who have a proven track record in the industry;
- Consider the creation of a 'one-stop shop' for the processing of foreign investment.

Lipman (1993) indicated that the following six points are the most important steps that governments must get right to attract FDI:

- Liberalising air transport;
- Preserving law and order so that tourists won't be frightened away;
- Putting infrastructure in place – particularly airports and, ultimately, satellite-based air traffic-control systems – to reduce costly delays;
- Automating border control and entry procedures for travellers, and eliminating frustrating bureaucracy;
- Encouraging environmental responsibility through cost-increasing regulation and;
- Giving the Tourism Industry a fair tax deal, instead of add-on taxes at every stage of the travel chain, for example, hotel rooms, car rentals, air tickets, border crossings, airport improvements, security and inspection processes.

Other factors that can enhance FDI to South Africa are:

- Market-based economic policies – an open economy allows international transactions in capital inflows and goods and services which improve production capacity and enhance productivity;
- Government support for competitive economy, that is, government institutions that support a modern competitive market economy, including the rule of law and protection of property rights;
- Restructuring of financial and capital markets – mobilising savings and allocating these resources efficiently to the most productive uses and investment options within the economy;
- Provision and maintenance of infrastructure – the provision and the maintenance of efficient infrastructure are essential for enhancing competitiveness;
- Improving existing technology – the introduction of new technologies can transform the productivity levels, production capacities and capabilities, and economic performance;
- Human capital development – this provides the required knowledge, skills, and attitudes for product development, quality control, financial operations, and marketing;
- Creating an investor friendly environment – the creation of an investor-friendly environment is crucial for emerging, developing economies. A proper institutional framework should be provided. Attractive incentives should be established and be aimed at encouraging effective long-term investment (Jordaan, 2001; Sanford & Dong, 2000);
- Investors need information that is more detailed and more complex than that normally available from the government or industry publications;
- Investors must be assured that their FDI will make a profit that justifies the added expense of foreign operations;

- Investors must be able to estimate the costs associated with adapting operations to a new regulatory environment, new customers, new competitors, new suppliers and new infrastructure; and
- Other relevant information may be observed about consumer tastes, competitors, regulatory practise, technology, amenities, or any other element that affects investment decisions (Sanford & Dong, 2000).

According to Paul Laudicina, MD of American-based AT Kearny Inc, (as quoted by Bridgraj, 1999) there are three conditions that need to be satisfied to attract more FDI:

- Continuing on the path for regional economic integration;
- Providing continued liberalisation for external trade relations; and
- Trade and investment policies of all SADC (Southern African Development Community) countries be harmonised.

Hawkins & Lockwood, (2001) suggests the following elements of a strategy for attracting FDI (Figure 3.2):

Strategy element	Associated function	Responsible agencies	Anticipated invested response
Development of subjective preference for South Africa	Marketing of South Africa	Investment promotion agencies, communication agencies	From ignorance to awareness
Reduction of risks associated with investment of South Africa	Regulatory, institutional	Policy makers and administrators	Expressions of interest
Investment opportunity identification	Entrepreneurial	Partnerships between private and public sector	Committed investment

Figure 3.2: Elements of a strategy for attracting FDI
(Source: Hawkins & Lockwood, 2001)

Table 3.2 indicates that at the primary and broadest level, there is a need for marketing the country, so that a subjective preference for South Africa is nurtured among investors. At a regulatory and institutional level, reduction of perceived risks is required. Above all,

this requires widespread and accessible dissemination of information concerning regulations. The third important (and possibly neglected) requirement of would-be foreign investors, is the identification of specific investment opportunities. Each level encompasses different types of support and assistance, and will thus require different skills. The most appropriate provider of support should, therefore, be determined accordingly.

Each level indicated in Figure 3.2 will now be discussed:

➢ LEVEL 1: DEVELOPING A PREFERENCE FOR SOUTH AFRICA

The base requirement of awareness of, and a subjective preference for South Africa, requires a coordinated marketing and communication strategy that seeks, primarily, to ensure that potential investors are enticed to visit South Africa. This would include elements such as:

- The provision of basic information about South Africa and its economy;
- A proactive communication strategy targeted at the most influential foreign financial print and electronic media that aims to correct misperceptions of South Africa, and to develop a positive image of the country;
- Expanding the marketing of South Africa as a business and as a tourism destination; and
- Enhanced efforts aimed at securing major international sporting and cultural events that will attract large numbers of foreign visitors and that will "showcase" South Africa.

Foreign investors' invest in countries that they have already visited; therefore, the better a foreign investor has known a country, the more it may lead to investment (Mueller, 2003).

FDI may result in greater or superior promotional effort in the home country of the investor, leading to higher visitor numbers from that country (Dwyer & Forsyth, 1994).

➢ LEVEL 2: REDUCTION OF RISKS ASSOCIATED WITH INVESTMENT OF SOUTH AFRICA

Responsibility for the risk reduction category rests largely with government, and encompasses many aspects, such as:

- A high degree of policy consistency and predictability – especially as it relates to government procurement, BEE, competition, and affirmative action policies;
- Relatively equal treatment of foreign and local firms;
- Access to, and high level service from, specially identified and trained officials in relevant government departments; and
- The commissioning and provision of market information in narrowly defined sectors.

A number of new pieces of legislation that influence the business sector directly have been promulgated in South Africa in recent years. Because foreign investors in South Africa generally feel more insecure that their local counterparts, "subjective" elements in such legislation increase the risk associated with investment, and give rise to perceptions amongst the investors of being "unwelcome" and discriminated "against". A reduction in the scope for subjective rulings and interpretations in such legislation would reduce the perception of the risks faced by foreign investors.

Risks would further be reduced if foreign investors had improved access to officials in key government departments. Such officials should, however, be trained to provide consistent guidance as well as appropriate and prompt support to potential investors. The Department of Home Affairs, in particular, should be at the forefront of projecting a professional and positive image to potential investors.

The role of the DTI should, in this process, be to develop and manage the strategic approach to FDI in South Africa, from both local and foreign sources, by establishing the ground rules for, and administration of, the proposed commission/incentive package in addition to providing sectoral information to the market at reasonable cost. Information such as the size of the industry and the description of the supply chain is the kind of information that could reduce costs of entry and so could enable identification of opportunities. While the DTI should commission these kinds of sectoral reports as and when deemed necessary, the cluster reports could provide a very useful starting point.

➢ LEVEL 3: FDI OPPORTUNITY IDENTIFICATION

The identification of FDI opportunities is generally seen as an entrepreneurial skill, and the match-making process is both time consuming and resource intensive. This suggests an opportunity to utilise private sector expertise to encourage the identification of new projects designed to harness FDI. Both the provincial IPA's and independent consultants could be offered commission based on various criteria,

perhaps such as the size of the investment, or the number of jobs created. Commission payments could be made in tranches – subject to investment being undertaken and sustained. This approach would have the advantages of allowing entrepreneurs, in conjunction with consultants, to identify investment opportunities in the fields in which they have expertise, and in which they perceive opportunities.

Even though the government of South Africa needs to enhance FDI, there are certain key global principles and best practices that can be followed and evaluated according to the needs of South Africa.

3.6 BEST PRACTISES GLOBALLY IN ATTRACTING FDI

According to Slot (as quoted by Swart, 2004), the government of Australia has introduced a subsidy for first-time buyers utilising some of the money that has poured into government coffers from the transfer duty, Value Added Tax (VAT) and Capital Gains Tax (CGT) that was generated by the buoyant property market.

The following principles can contribute to a favourable climate for both international and regional investments:

- Transparency of national policies, laws and regulations and administrative practices affecting foreign and domestic investment;
- Coherence and stability of these laws, regulations and administrative practices. (Changes made in light of evolving circumstances should respect the rights of investors already established by that time);
- National treatment for foreign investors at both the pre- and post-establishment stage; exceptions should be clearly and precisely formulated, and periodically reviewed with a view to phasing them out;
- Timely and unrestricted transfer of the proceeds of the investment and a guarantee for the repatriation of the capital when the investment is terminated;
- Fair and equitable treatment of domestic and foreign investments with full protection of property rights including intellectual property; high standards when dealing with expropriation and compensation;
- Unrestricted access of investors to effective dispute settlement mechanisms, including international arbitration;
- Movement of key personnel for the investment, and simplification of visa regulations;
- Transparency of incentive measures;

- Simplification of administrative procedures for the establishment of new companies, take-over of existing companies, the granting of permits, concessions and licenses, as well as for other operations or transactions needed for the establishment or development of private investment;
- Transparent and equitable regulations and procedures for privatisation and de-monopolisation;
- Respect of internationally agreed principles of corporate social responsibility including the Organisation for Economic Co-operation and Development (OECD) guidelines for MNC's;
- Good corporate governance and integrity in public administration;
- Removal of barriers to trade, which have a negative effect on investment, through increased regional co-operation; and
- Promotion of investment policies and measures consistent with their commitments to sustainable development, protection of the environment and the observation of internationally recognised core labour standards (Ministerial declaration, 2002).

In line with the former, countries will:

- Review their policies and rules affecting investment and private sector development with a view to improving the investment climate in the region;
- Consider adhering to relevant international rules and instruments such as the OECD Declaration on International Investment and MNC's and OECD Principles on Corporate Governance;
- Notify and publish lists of national measures providing exceptions to national treatment and the rationale for maintaining these measures;
- Take effective measures to combat bribery and corruption, money laundering, organised crime and commercial fraud and engage in exchange of information and mutual legal assistance on these matters;
- Complete their network of bilateral investment treaties and double taxation treaties within the region and further expand their treaty network with other countries, which are sources of investment;
- Review the costs and benefits of investment incentives, and exchange views and experience on their use and economic impact;
- Intensify action to remove obstacles to business development, in particular, regulations and administrative practices that obstruct or delay investment;
- Enhance partnerships in building the human capacities and skills necessary for acquiring and spreading the benefits of investment in the region;

- Disseminate timely information on public procurement and ensure the opportunity for all enterprises to participate in bidding procedures under fair and transparent procedures;
- Develop a framework for the competitive functioning of its markets which would include effective competition laws and the reform of economic regulations;
- Strengthen the capacities of investment promotion agencies to disseminate information and to provide services to investors, and encourage co-operation among these agencies at regional and international levels; in this context, build on the successful work;
- SMME's and encourage their co-operation in regional projects; and
- Consult business groups, private sector associations, social partners, and civil society organisations to explore the development of investment opportunities, and to provide input to the decision-making process on investment policies, laws and regulations (Ministerial declaration, 2002).

From the former, it is a clear indication that the Australian government wants to improve the investment climate of the country. The following will highlight the Association of Southeast Asian Nations (ASEAN)' policies intended to attract FDI.

ASEAN policies to attract FDI are a mixture of investment incentives and restrictions, regulations and performance requirements:

- Political and economical stability;
- A balanced and equal approached to investors;
- Improvement of educational levels;
- Domestic savings needed to stimulate significant growth;
- Encourage the type of FDI that will create linkages with the domestic economy;
- A vigorous promotion of existing FDI opportunities, but it must include a realistic assessment of the country's assets; and
- Policy makers, academics, union leaders, and business leaders must build consensus on how to take advantage of their existing resources and how to create new assets in order to attract FDI that will stimulate growth of the entire economy (Cotton & Ramachandran, 2001).

Lessons can be learned both from the Australian government and the Association of Southeast Asia's policies to attract FDI. These methods of attracting FDI, in context, should be taken into consideration by the South African government in the future.

3.7 FDI DECISION-MAKING

Before a decision is made to buy a certain tourism product in South Africa, the foreign investor must determine whether it will be a good investment or not. To determine this, the foreign investor must estimate the future growth of income and expenses, rents, property taxes, insurance, management as well as maintenance (Amling, 1989).

Once again, the importance of an investment decision cannot be overemphasised (Bennett *et al.* 2005) and, therefore, the following factors need to be taken into consideration by an investor when deciding whether or not to purchase a tourism establishment or property:

- **Location** – It is important for the investor to find an establishment, such as a hotel, Bed & Breakfast, game lodge, or any other tourism product that has the ability to maintain or increase its value. Therefore, the foreign investor needs to study the trends in prices of the tourism product that the foreign investor wants to buy. A foreign investor must analyse the movement of prices of establishments in various sectors of the area that s/he wants to purchase and that analysis will reveal the trend and magnitude of price changes, as well as the stability of prices.
- **Buy at a fair price** – Foreign investors should try to buy an establishment at a fair price and at a price for the establishment that is affordable. The investor can determine whether the price is either fair or realistic by looking at the selling price of comparable establishments in the area.
- **Understand the contract for purchase** – The contract for purchase requires an offering price, usually a good-faith deposit of 10% of the offering price, and a settlement date, which is the date when title and ownership of the property will be transferred to the buyer.
- **Understand the credit statement** – The foreign investor should also provide a credit sheet, which will indicate the financial position of the investor, and whether the foreign investor has financial ability to buy the establishment (Amling, 1989).

Figure 3.3 indicate the steps that can be used by foreign investors to assist them in their decision to buy in South Africa.

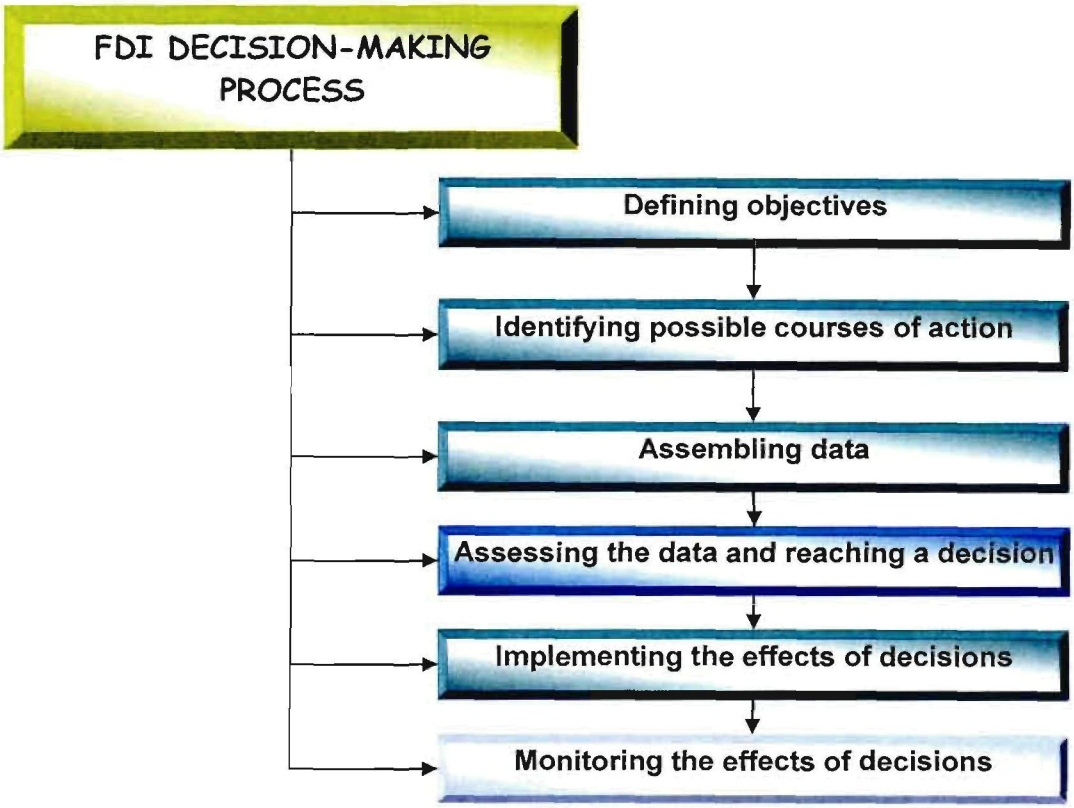

Figure 3.3: FDI decision-making process

➢ DEFINING OBJECTIVES

The foreign investor should know what s/he wants to achieve when deciding to invest in South Africa. For example, what will the outcome be of his/hers' decision? If foreign investor decides to buy a lodge, s/he needs to decide what they want to do with it, for example, use it for private purposes only, or use it as a tourism attraction where the foreign investor will, in return, make money.

➢ IDENTIFYING POSSIBLE COURSES OF ACTION

The available courses of action should be recognised. In doing this, consideration should be given to any restrictions on freedom of action imposed by law or any other forces not within the control of the decision maker or investor. Good decision-making requires that the horizon should constantly be surveyed for opportunities that will better enable the objectives to be achieved, such as recognising new investment opportunities and the means to finance it. Such opportunities will not often make themselves obvious and businesses need to be searching for them constantly. A business failing to do so will almost certainly be heading into decline and opportunities will be lost to its more innovative competitors.

➢ ASSEMBLING DATA

Each possible course of action must be reviewed and the relevant data identified. Not all data on a particular course of action are necessarily relevant. As decisions involve selecting from options, it is because of differences that the decision can sensibly be made, if the decision were to buy or not buy property. If common factors are irrelevant to decision making, then past costs must be irrelevant, since they must be the same for all possible courses of action. It is, therefore, important to recognise what information is relevant to the decision maker and what is not. Gathering information can be both costly and time consuming, thus restricting such gathering to the relevant may well lead to considerable savings in the costs of making the decision. In addition, the presence of irrelevant information can confuse decision makers, leading to sub-optimal decisions.

➢ ASSESSING THE DATA AND REACHING A DECISION

This involves comparing the options by using the relevant data in such a way as to identify those courses of action that will best work towards the achievement of the objectives.

➢ IMPLEMENTING THE DECISION

It is pointless taking the time and trouble to make good decisions if no attempt is made to ensure that action follows the decision. This action is not restricted to what is necessary to set the selected option into motion, but includes controlling the resulting process through its life. Steps should be taken to ensure, or to try to ensure, that what was planned is what actually happens.

➢ MONITORING THE EFFECTS OF DECISIONS

Good decision-making requires that the effects of previous decisions be closely monitored. There are two reasons for this:

- It is valuable to assess the reliability of forecasts on which the decision was based. If the forecasts prove to be poor, then decision makers must ask themselves whether reliability could be improved by using different techniques and databases. It is obviously too late to improve the decision already made and acted upon, but this practice would improve the quality of future decisions; and
- If a decision is proving to be a bad one for any reason, including unforeseeable changes in the commercial environment, monitoring should reveal this so that some modification might be considered that could hopefully improve matters. This

is not to say that the original decision can be reversed. Unfortunately, the past cannot be altered, but steps can be taken to limit the bad effects of a poor decision (McLaney, 2003).

Once the decision has been made to buy a tourism product in South Africa, the following process can be followed.

3.7.1 FDI BUYING PROCESS TO INVEST IN SOUTH AFRICA

The following Figure 3.4 summarises the process that a foreign investor (non-resident of SA) needs to follow when buying property.

Once a foreign buyer decides to purchase property in South Africa (Figure 3.1) s/he will need to find a real estate agent or broker that is registered as a member of the Estate Agents Board. All contracts to acquire land must be in writing, must contain certain prescribed information, and must be signed by both buyer and seller to be both valid and legally binding.

Contracts most commonly take the form of an Agreement of Sale or an Offer to Purchase. Once an Agreement of Sale has been signed by both parties, it represents a valid and binding document from which neither party can withdraw without legal consequences, save instances where:

- The agreement is subject to certain conditions which are either fulfilled or not; and
- The purchase price is less than R250 000, and certain additional criteria in terms of the Alienation of Land Amendment Act are present entitling the Purchaser to a "cooling-off" period.

Although it is not obligatory, a non-resident may open a 'non-resident' account at a South African commercial bank, to facilitate loan repayments. This account would normally be funded from abroad, or from rentals received on the property purchased, subject to the bank holding the account being provided with a copy of any rental agreement.

The SARB refers to foreigners as non-residents – whether they are natural persons or legal entities, whose normal place of residence, domicile, or registration is outside the common monetary area of South Africa. Should the non-resident be paying cash for the property, the transaction can be processed without intervention from the SARB.

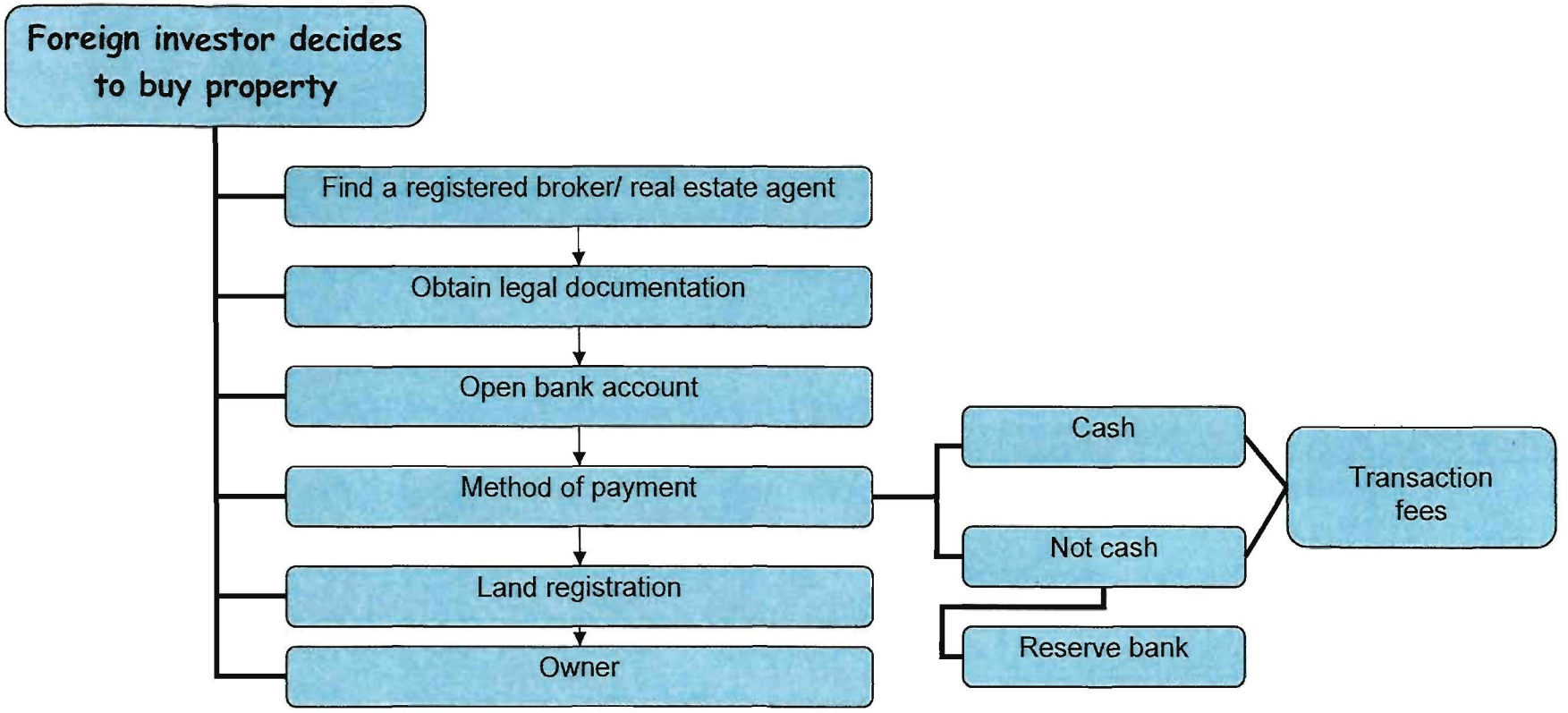

Figure 3.4: The buying process (Pam Golding, 2006)

Non-residents purchasing property in South Africa may borrow up to a maximum of 50% of the purchase price in South Africa; the other 50% of the funds must be brought into the country by the purchaser, and transferred from a recognised foreign bank to a bank in South Africa. The total amount that may be borrowed is at the discretion of the commercial bank offering the loan. Non-residents who are in possession of a valid South Africa work permit are considered to be residents for the duration of their work permit and are therefore not subject to the borrowing restrictions placed on non residents.

However, the Exchange Control Authority allows a non-resident desirous of obtaining permanent residence status in South Africa to be dealt with as a South African "resident" for exchange control purposes. This takes place upon completion of a so-called Immigrant's Declaration & Undertaking issued by South African banks.

Once such a Declaration has been completed, the applicant will be eligible to borrow 100% of the purchase price of the property. However, it will then be incumbent upon such a person actually to apply for, and obtain, permanent residence within a reasonable period.

Exchange Control is currently undergoing a process of deregulation in South Africa, to make it progressively easier for foreigners to invest, and also for South Africans to do business abroad. However, it remains a complex subject and non-residents investing in South Africa are strongly advised to consult a reputable lawyer or accountant for advice. The SARB still retains considerable control, and while notes and guidelines have been set, allowances will be made for exceptional circumstances.

Land registration

South Africa is reputed to have one of the best deeds registration systems worldwide, with an exceptional degree of accuracy, and of tenure being guaranteed. South Africa offers an unusual degree of certainty with regard to property ownership and property can be owned individually, jointly in undivided shares or by an entity such as a company, close corporation, trust or similar entity registered outside South Africa (Pam Golding, 2006).

3.8 CONCLUSION

A country's success in attracting FDI is largely dependant on two factors: firstly, the government of a country, that is, its policies as well as legislation and, secondly, strategies to attract FDI. To a lesser extent, but also important, are incentives that the government

of a country offers to prospective investors. Strategies that are in place to improve FDI to a country include macroeconomic policy, industrial strategy, trade strategy, microeconomic reforms, as well as AsgiSA. FDI is also promoted through IPA's, such as ECDC, FDC, GEDA, TIK, TIL, MII, Northern Cape Province, Invest North West and WESGRO. These IPA's should communicate investment opportunities and incentives that the South African government offers to prospective investors.

In conclusion, it is apparent that as long as the South Africa government remains committed to austere macro-economic policies, invests in infrastructure, skills and technologies required for successful for successful clusters and IDZ's as well as to aggressively market South Africa as an attractive location, the commitment to these policies and supply side incentives will attract MNC's as a large private sector response to the incentive programme enhancing productivity and generating booming industrial districts (Streak, 1998).

A country has to earn its trade and investment by creating a welcoming environment with complementary incentives and with a correct policy mix. An investment code of conduct is needed. The international role-players know what they want. They also know what they can get from other parts of the world. If a country is serious about attracting foreign resources, economic and business realities cannot be permitted to make way for social objectives – even if much-needed – since the inflow of foreign resources is necessary to reach those very objectives in the long term (Jordaan, 2001).

This chapter determined the role of the South African government and institutions with respect to FDI, as well as what South Africa has to offer to foreign investors and therefore reaches objective 1 and 3 of this study.

Chapter 4 envisages the empirical research of this study.

4 EMPIRICAL RESEARCH

"Research is to see what everybody else has seen, and to think what nobody else has thought"

Albert Szent-Gyorgyi (1893-1986)

4.1 INTRODUCTION

This chapter presents the results of the empirical study. The interpreted results will be used to develop a model for FDI for the South African Tourism Industry. A quantitative research method was used by means of a questionnaire. This questionnaire was developed, and administered at various estate agencies. As mentioned before, one hundred and fifteen questionnaires were handed out to various estate agencies, predominantly along the coastline of South Africa (Table 4.1). The participants were chosen by means of a convenience sampling method (cf. Chapter 1).

The purpose of the questionnaire was to obtain information about investors from different countries that invest in South Africa, to determine which countries the investors came from, what tourism products they were interested in and the different factors that foreign investors will take into consideration when investing in tourism products of South Africa.

This chapter is aimed at achieving objective 1 and 3 of the study, which are respectively to, establish what it is that South Africa has to offer foreign investors as well as to determine the role that the South African government and institutions play with respect to FDI. Although the empirical research will be used to develop a foreign direct investment model for tourism property acquisition, a profile of the top five foreign countries that invested the most will also be given.

This chapter will be organised in the following fashion:

- Interpretation of results from this research and previous research completed;
- Summary; and
- Conclusion, which will include the profile of foreign investors.

4.2 INTERPRETATION OF RESULTS

The results of the questionnaire and previous research done by Pam Golding, The DTI and Business Map, will now be discussed.

4.2.1 LOCATION OF ESTATE AGENCIES

Table 4.1: Estate agents' offices situated

OFFICE	PERCENTAGE
Addo	0.8
Alberton	0.8
Balito	0.8
Bedfordview	0.8
Bettys Bay	0.8
Centurion	2
Cape Town	3
Dana Bay	4
Dullstroom	2
Durban North	0.8
East London	0.8
Fish Hoek	0.8
Franschoek	0.8
George	**7**
Gouritsmond	0.8
Graskop	3
Great Brak River	5
Hartenbos	3
Hazyview	0.8
Hermanus	0.8
Hoedspruit	3
Kenton-on-Sea	2
Knysna	**9**
Lonehill	0.8
Lydenburg	0.8
Mossel Bay	**8**
Nelspruit	0.8
Plettenberg Bay	**6**
Port Alfred	2
Potchefstroom	0.8
Pretoria	0.8
Richards Bay	2

OFFICE	PERCENTAGE
Roodepoort	0.8
Sabie	2
Sandton	0.8
Sedgefield	**8**
Somerset West	0.8
St Francis Bay	0.8
Stellenbosch	0.8
Still Bay	6
Swellendam	0.8
Umtentweni	0.8
Western Cape	0.8
Wilderness	2
Witbank	1

Table 4.1 indicates that the majority of the respondents' offices are situated in Knysna (9%), Mossel Bay and Sedgefield (8%), George (7%), Plettenberg Bay as well as Still Bay (perhaps better known as Stilbaai) (6%).

Pam Golding estate agencies provided the following information regarding FDI in property per area for 2002/2003:

Table 4.2: FDI average inflows for 2002/3 per area

Suburbs	N	Mean	Sum	Std Dev	Minimum	Maximum
Atlantic Suburbs (Sea Point)	48	1094933	52556800	820372	190000	4500000
Camps Bay	22	2679073	58939600	1511622	650000	6050000
City Bowl	23	695683	16000702	467462	135000	2100000
Fish Hoek	15	788512	11827680	892526	160000	3500000
Hout Bay	13	2008500	26110500	1688315	450000	5750000
Kommetjie	9	505639	4550754	556694	65789	1950000
Southern Suburbs	74	1731635	128141000	1788221	174000	9200000
Langebaan	20	429350	8587000	305343	40000	1300000
Melkbosstrand	4	573750	2295000	46075	520000	630000
Muizenberg	17	1065765	18118000	1046123	225000	3700000
Noordhoek	9	1761111	15850000	2130142	730000	7375000
Northern Suburbs	12	749042	898850	658034	158000	2550000
Waterfront	6	6421667	38530000	3090116	2800000	10000000
Simons Town	17	857706	1458100	588215	240000	2100000
Sunset Beach	5	1245550	6227750	1080302	165000	2900000
Table View	29	974707	28266500	881306	147000	4400000

Suburbs	N	Mean	Sum	Std Dev	Minimum	Maximum
Bedfordview	3	628333	1885000	307178	295000	900000
Centurion	1	300000	3000000	0	3000000	3000000
Glenvista	1	5400	5400	0	5400	5400
Hyde Park	49	1700418	83320500	1722037	300000	11000000
Northcliff	3	755000	2265000	311889	400000	985000
Pretoria	6	1274000	7644000	1128702	514000	3500000
Betty's Bay	5	659600	3298000	841070	48000	2135000
Franschoek-Winelands	28	3746518	104902500	4055739	400000	11900000
Gansbaai	14	468857	6564000	314725	48000	980000
Gordon's Bay	18	768333	13830000	337194	210000	150000
Hermanus	16	1194688	19115000	781137	435000	2980000
Kleinmond	7	1222857	8560000	1453389	90000	3400000
Malmesbury	3	514333	1543000	214654	330000	750000
Onrus	4	412500	1650000	196829	165000	590000
Strand	8	622933	4983465	622746	185000	2000000
Robertson	5	233000	1165000	117558	95000	360000
Swellendam	2	424000	848000	217789	270000	578000
Stellenbosch	9	1365878	12292900	937932	272900	3200000
Somerset-West	33	1161061	38315000	820661	230000	3400000
Agriculture	8	1768625	14149000	1643962	180000	3400000
All groups	546	1403309	766206551	1743668	5400	11900000

Source: Pam Golding, (2003)

Table 4.2 contains statistics on properties sold to foreign investors by Pam Golding estate agents. The main areas of investment include Cape Town Southern Suburbs (74). (The Southern suburbs include: Athlone, Bergvliet, Bishopscourt, Claremont, Constantia, Mowbray, Newlands, Rondebosch, Rosebank, Tokai, and Wynberg), Hyde Park (49), Sea Point (48), Somerset West (33) Table View (29), as well as Franschoek-Winelands (28). The largest amounts of money were invested in the following areas: Southern Suburbs (R128, 1 Million), Franschoek-Winelands (R104, 9 million), Hyde Park (R83, 3), Sea Point (R52, 5 million), Camps Bay (R58, 9 million). The total investment in the above-mentioned areas is R427.7 million and, as mentioned before, these investments are generated through only one estate agent. This demonstrates the enormous amounts of money that can be generated from FDI.

4.2.2 YEARS OF EXPERIENCE OF THE DIFFERENT ESTATE AGENTS

The number of years of experience of the individual estate agents is an indication of their ability to advise their foreign clients.

Table 4.3: Years of experience

YEARS	PERCENTAGE OF AGENTS
0-5	39%
6-10	23%
11-15	13%
16-20	17%
21-25	4%
26-30	4%
AVERAGE	
10.19 years	

In the light of Table 4.3, the years of experience agents have in the estate agency business is as follows: 39% of the respondents have 0-5 years of experience, 23% have 6-10 years of experience, 13% have 11-15 years and 17% has 16-20 year of experience and 4% have respectively 21-25 and 26-30 years of experience as an estate agent. The average estate agent has 10.19 years of experience. Therefore, estate agents should be able to provide sufficient accurate information to foreign investors. However, some of the respondents indicated that estate agents still provide foreign investors with dismal advice and that issue will influence FDI in the future.

4.2.3 ESTATE AGENCIES' FOREIGN SALES

Table 4.4: Foreign sales

FOREIGN SALES	PERCENTAGE PER ESTATE AGENT
1% foreign sales	10
2% foreign sales	7
3% foreign sales	3
4% foreign sales	1
5% foreign sales	18
6% foreign sales	3
8% foreign sales	1
10% foreign sales	23
12% foreign sales	1
12.5% foreign sales	1
15% foreign sales	4
20% foreign sales	10
25% foreign sales	4
30% foreign sales	1
33% foreign sales	1
40% foreign sales	3
50% foreign sales	5
65% foreign sales	1

FOREIGN SALES	PERCENTAGE PER ESTATE AGENT
70% foreign sales	2
75% foreign sales	1
AVERAGE	
14.41 %	

Table 4.4 shows the percentages of estate agent's foreign sales. Twenty-three (23) per cent of the respondents indicated 10% foreign sales, 8% of the respondents indicated 5% foreign sales, 1% of the respondents have 10% and 20% foreign sales and 2% of the respondents have 7% foreign sales. If one calculates the foreign sales provided, it will indicate the following: 39% of the estate agents have 1-5% foreign sales, 27% of the estate agents have 6-10% foreign sales, 6% have 11-15% foreign sales, 10% have 16-20% foreign sales, 21% have 21-25% foreign sales, 5% have 26-30% foreign sales and 14% of the estate agents have more than 30% foreign sales. Table 4.4 clearly indicates a market for foreign sales and this market can therefore not be neglected. The average foreign sales, as a percentage of the total sales that estate agents made, is 14.41%.

These foreign sales can bring large amounts of foreign currency into South Africa and enhance the economy of South Africa. It can create job opportunities for numerous South Africans. Researchers such as Asheghian, 2004; Bandelj, 2002; Kim *et al.* 2002; Urata & Kawai, 2000; De Mello, 1997 & Gray, 1987 also support this.

4.2.4 COUNTRIES OF ORIGIN OF FOREIGN INVESTORS

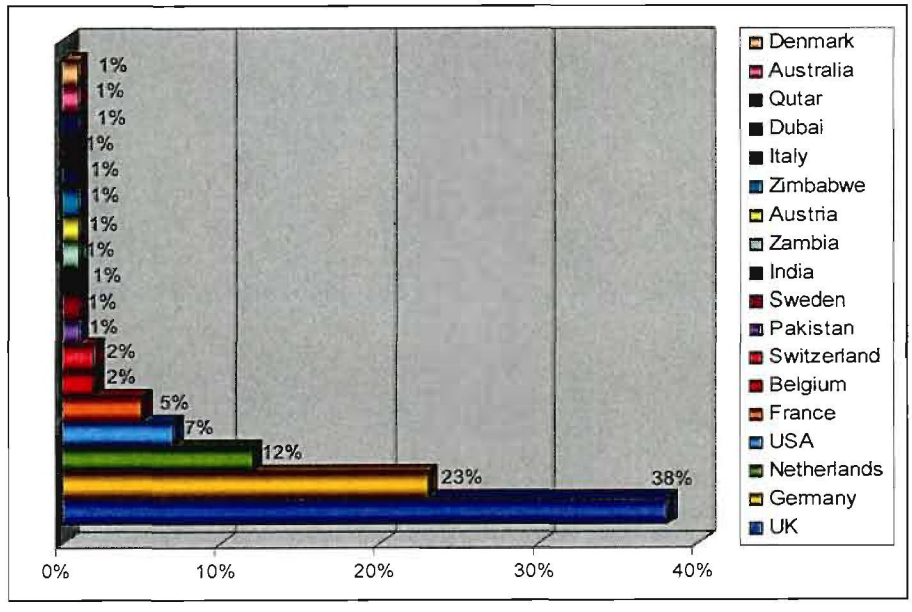

Figure 4.1: Countries of origin of foreign investors

According to Figure 4.1, the respondents indicated that the UK (38%), Germany (23%), The Netherlands (12%), USA (7%), and France (5%) are the home countries of foreign investors that have invested the greatest amounts in South Africa's tourism products. This correlates well with the SA Tourism's (2005), annual tourism report, which indicated that the UK, Germany, the USA, Netherlands, and France are the top 5 overseas markets. Mueller (2003) stated also that foreign investors target markets that they have already visited. It can be said with confidence that there is a strong correlation between foreigners visiting South Africa and the investments that took place.

During the development of colonialism in South Africa, the UK was the leading economic power of the nineteenth century. Therefore one can presume that this can be one of the major reasons for the UK resident to be interested in South Africa as an investment destination (Peires, 2007). SAT, the DTI, IMC, as well as IPA's can, therefore, focus more on these markets to promote South Africa as a FDI destination.

Table 4.5 below provides statistics on FDI inflows per country of origin. These statistics were provided by Pam Golding (2003):

Table 4.5: FDI inflows per country of origin

Countries	N	Mean	Sum	Std Dev	Minimum	Maximum
America	41	1837891	75353516	1553520	149000	6050000
Angola	1	235000	235000	0	235000	235000
Australia	7	1516429	10615000	1363160	400000	4500000
Austria	6	723667	4342000	944582	147000	2600000
Belgium	14	716046	10024645	549604	159000	2000000
Botswana	4	1487500	5950000	1556307	430000	3800000
Canada	7	625000	4375000	321986	250000	1200000
China	3	1146667	3440000	355715	740000	1400000
Denmark	1	869000	869000	0	869000	869000
England	259	1373485	355732668	1712209	5400	11000000
Ethiopia	4	855000	3420000	1041209	135000	2400000
France	4	1530000	6120000	524023	1070000	2100000
Germany	54	1426428	77027100	1833091	210000	11850000
Ghana	1	710000	710000	0	710000	710000
Hong Kong	2	1322500	2645000	1099551	545000	2100000
India	2	840000	1680000	205061	695000	985000
Iran	1	1200000	1200000	0	1200000	1200000
Ireland	13	964260	12535386	652882	330000	2150000
Israel	4	1673750	6695000	2243529	200000	5000000
Italy	6	1137500	6825000	807736	500000	2600000
Ivory Coast	2	1650000	3300000	1838478	350000	2950000
Japan	1	338000	338000	0	338000	338000

Countries	N	Mean	Sum	Std Dev	Minimum	Maximum
Kenya	5	2092600	10463000	1814771	368000	4600000
Korea	3	1001667	3005000	386081	560000	1275000
Namibia	12	547042	6564500	556216	40000	2200000
Netherlands	27	1950519	52664000	3147498	86000	11900000
Nigeria	7	2993571	20955000	3467930	425000	10000000
Norway	3	1708333	5125000	620652	1200000	2400000
Russia	2	1462500	2925000	88388	1400000	1525000
Ruwanda	1	345000	345000	0	345000	345000
Scotland	5	2958947	14794737	4988036	65789	11750000
Swaziland	1	280000	280000	0	280000	280000
Sweden	3	690000	2070000	13229	675000	700000
Switzerland	7	1571286	10999000	1309996	249000	3850000
Tanzania	1	1170000	1170000	0	1170000	1170000
Tunisia	1	1300000	1300000	0	1300000	1300000
Uganda	1	3400000	3400000	0	3400000	3400000
Wales	1	1400000	1400000	0	1400000	1400000
Zambia	2	680000	1360000	56569	640000	720000
Zimbabwe	27	1257556	33954000	850744	225000	2825000
All Grps	546	1403309	766206551	1743668	5400	11900000

Source: Pam Golding, (2003)

The 'N' in Table 4.5 indicates the number of transactions per foreign country. According to Table 4.5, the top 5 countries that made the most investments in the South African Tourism Industry are: England (259), Germany (54), America (41) and the Netherlands (27) as well as Zimbabwe (27). However, the top 5 countries that invested the largest amounts of money in Rands are also (respectively): England (R243,1m), Germany (R77,3m), America (R75,3m), The Netherlands (R52,6m) as well as Zimbabwe (R33,9m). If one compares the contents of Table 4.5 with Figure 4.1, the data shows that the countries that invested in SA during the research done for this study has shown little difference when compared to the older statistics provided by Pam Golding in 2003.

The following section presents some of the reasons that foreign investors give, for investing in South Africa.

4.2.5 FOREIGN INVESTORS' REASONS FOR INVESTING IN SOUTH AFRICA

Figure 4.2 points out the reasons for foreign investors to invest in South Africa.

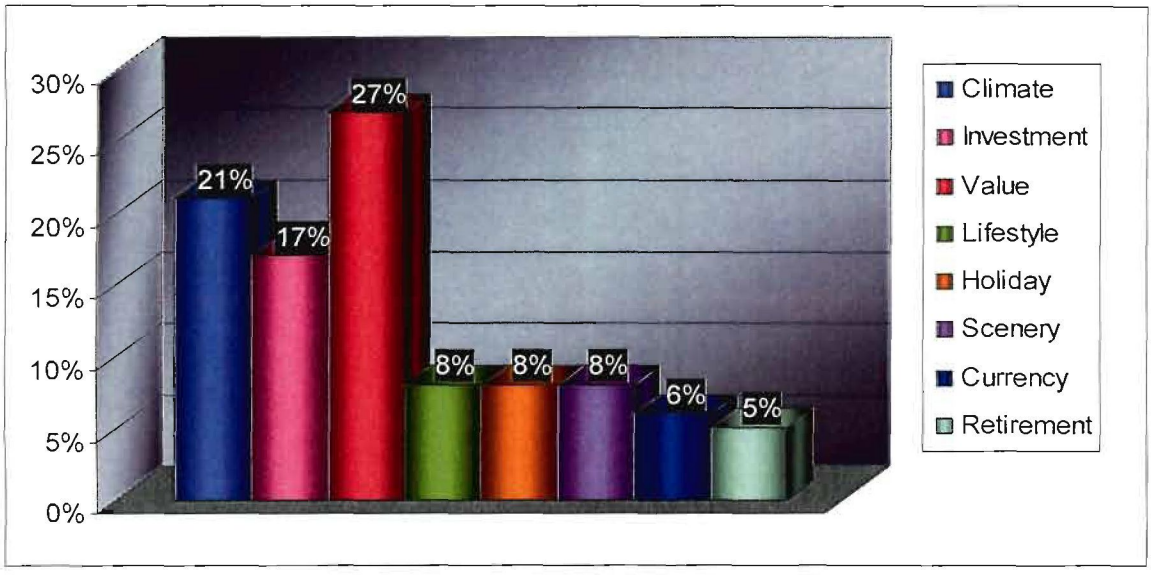

Figure 4.2: Reasons for investing in South Africa

According to Figure 4.2, the respondents indicated that foreign investors invest in South Africa as a result of its climate (21%), investments (17%), value for money (27%) and lifestyle, holiday, scenery (8%), currency (6%) as well as 5% for retirement. Research done by Saayman & Saayman (2007), also indicated that climate positively influences foreigners to visit South Africa and is, therefore, the most important determinant for FDI in South Africa. Once again, there is a strong connection between foreigners visiting South Africa, and subsequent investment.

4.2.6 THE MOST POPULAR TOURISM PRODUCTS THAT INVESTORS BUY

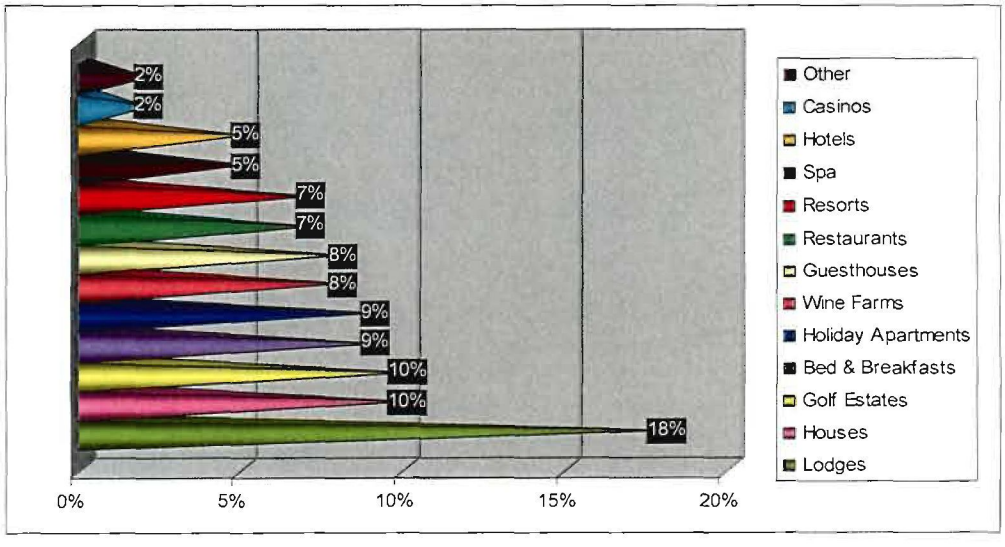

Figure 4.3: The most popular tourism products

The aim of this question was to determine which tourism products foreign investors prefer to buy. It is clear from Figure 4.3 that foreign investors are the most interested in investment, respectively, in lodges (18%), house and golf estates (10%), holiday apartments and bed and breakfasts (9%), wine farms and guesthouses (8%), restaurants and resorts (7%), spas and hotels (5%), casinos (2%) and other, which includes investment units, security complexes, stands, farms and trout farms (2%). IPA's or estate agents could use this information to promote these products to foreign investors.

Business Map provides additional information about FDI in different tourism products.

Table 4.6: FDI in different tourism products in South Africa

Tourism Sector	Year																			
	1994		1995		1996		1997		1998		1999		2000		2001		2002		2003	
	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m	Rm	US$m
Hotels	0	0	490	135	490	114	464	103	673	49	35	6	0	0	530	66	23	2	225	33
Casinos	0	0	0	0	0	0	399	87	100	18	-50	-8	410	57	39	5	107	9	0	0
Resorts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	153	14	392	52
Houses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30	3	42	6
Holiday Apartments and hotel	0	0	0	0	0	0	0	0	90	17	0	0	0	0	0	0	0	0	260	39
Game Farm	25	7	0	0	0	0	0	0	0	0	0	0	0	0	80	10	0	0	284	40
Hotel, residential development, golf and country club, bush lodge and spa	0	0	0	0	0	0	350	78	630	124	0	0	0	0	1,313	168	0	0	740	110
Total	25	7	490	135	490	114	1,213	268	1,493	208	-15	-2	410	57	1,961	249	313	28	1,943	280

Source: Business Map, (2004)

From Table 4.6, it is clear that the tourism products in which foreigners invest the greatest amounts are hotels, residential development, golf and country clubs, bush lodge and spas. The total amount invested in the above-mentioned area was US$168 million in 2001. During 1998 (US$208m), 2001 (US$249m) and 2002 (US$280m) South Africa had experienced the most foreign investments in a 10 year period. From the forgoing, it is clear that numerous foreign investments were made in various tourism sectors during the last few years, and that South Africa as a tourism destination can and does attract foreign investors from all over the world.

According to the DTI, (2003b), the projected levels of FDIs, Table 4.7, inflows into the Tourism Industry for 2002/2003 are:

Table 4.7: Projected levels of FDI inflows for 2002/3

Type of investment	Source country	Rand value (R'm)	Jobs
Game lodges	US, UK, the Netherlands, Canada	82	72
Tour operators	UK, China, the Netherlands, France, Belgium	112	59
Guesthouse and Bed & Breakfast accommodation	Europe (Germany, Belgium, France and the Netherlands), UK	31	21
Entertainment centres	UK, US, the Netherlands, Belgium	4	15
Hotels and resorts	The Netherlands and the UK	145	93
Total		**374**	**260**

Table 4.7 gives a clear indication of the importance of encouraging FDI in South Africa for to the following reasons:

- The jobs created by FDI and;
- The money that South Africa generates from FDI.

The former also highlights that the UK and the Netherlands are countries that invest in several of the tourism products that South Africa has to offer.

4.2.7 THE MANNER IN WHICH FOREIGN INVESTORS BUY IN SOUTH AFRICA

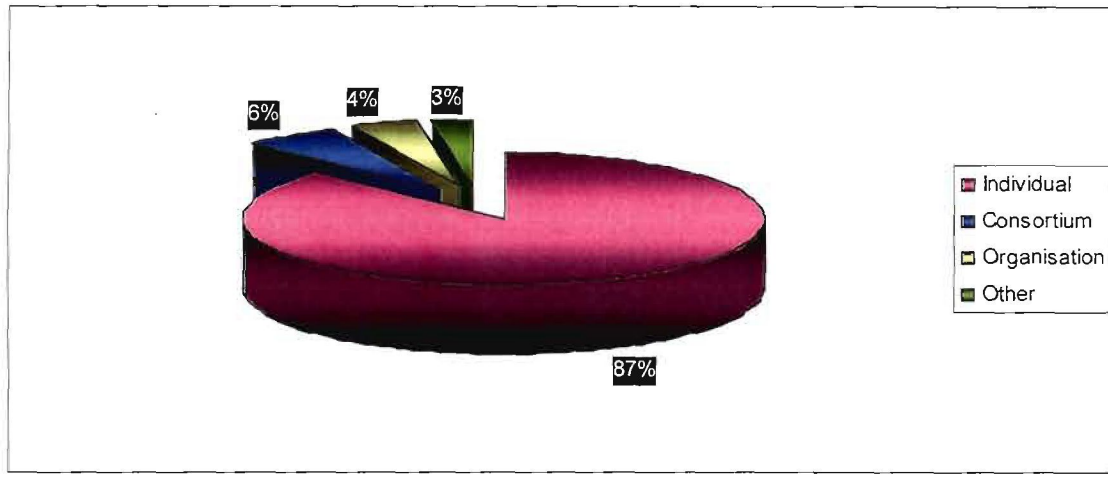

Figure 4.4: Manner in which foreigners buy in SA

From Figure 4.4, it can be seen that foreign investors are likely to invest in South Africa either as an individual (87%), consortiums (6%), organisations (4%), and other means such as couples and trusts (3%). Promotion agencies and the IMC should focus on individuals to attract FDI into tourism property as these are the largest source of foreign investments.

4.2.8 COMMON PROBLEMS EXPERIENCED BY FOREIGN INVESTORS WHEN INVESTING IN SOUTH AFRICA

The percentages provided in Figure 4.5 are indicated by the respondents of this study.

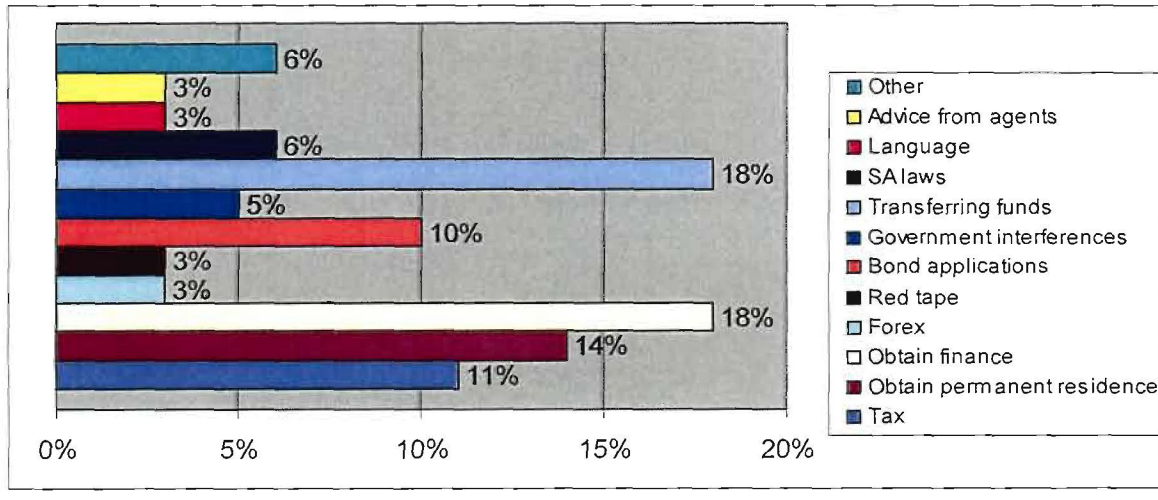

Figure 4.5: Problems experienced by foreign investors

Figure 4.5 highlights some of the problems experienced by the respondents when foreign investors want to purchase property in South Africa:

- 18% of the respondents indicated that obtaining finance as well transferring funds is a serious problem when foreigners want to invest in South Africa;
- 14% of the respondents indicated that obtaining permanent residence in South Africa is difficult;
- 11% of the respondents indicated that tax implications causes problems to foreign investors when they want to invest in South Africa;
- 10% of the respondents indicated that bond applications are a difficult process;
- 6% of the respondents indicated that SA laws as well as the following aspects of SA laws are a major problem for foreign investors: dealing with the Department of Home Affairs; signing of documents; building on an open plot when overseas; credibility of bank statements; rural roads, lack of knowledge of their rights as well as loan applications;
- 5% of the respondents indicates that government interference causes problems for foreign investors; and
- 3% of the respondents indicated that foreign investors also experience problems regarding the following: poor advice from estate agents, language diffculties, bureaucracy, as well as Forex.

These raise serious concerns regarding the future of FDI for South Africa. The South African Government and any other institutions involved needs to address these problems to in order to secure foreign investors still investing in South Africa. If these problems are not addressed, they will negatively influence the economy.

4.2.9 THE PERCENTAGES OF FOREIGN INVESTORS THAT APPLY FOR LOANS TO BUY PROPERTY

Table 4.8: Percentages of loans

PERCENTAGE APPLYING FOR LOANS	PERCENTAGE
1 – 5%	13
6 – 10 %	8
11 – 25%	11
26 – 50%	41
51 – 80%	16
81 – 100%	11

The respondents (Table 4.8) indicated that 26-50% of foreigner investors apply for loans in South Africa to buy property. Statistics show that this equals 41% of all the respondent's clients applying for loans. Research indicated by this study is that one of the problems experienced by foreigners is obtaining loans, and therefore it is suggested that financial institutions, as well as the government of South Africa, should facilitate loan applications by foreigners.

4.2.10 FOREIGN INVESTORS' AWARENESS OF THE INCENTIVES THAT THE SOUTH AFRICAN GOVERNMENT OFFERS

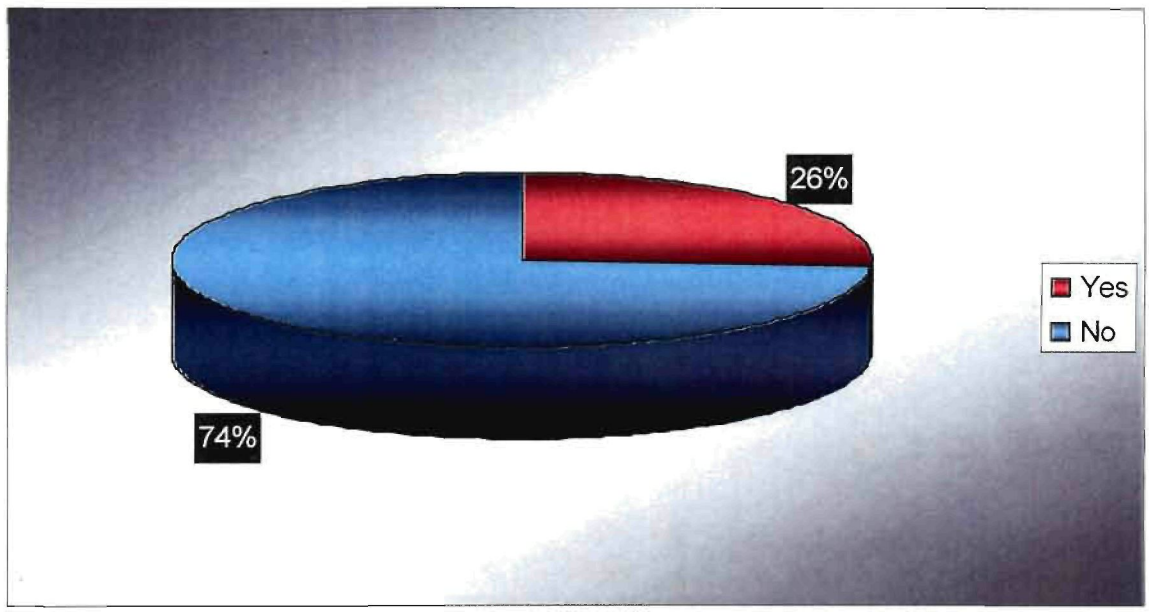

Figure 4.6: Awareness of Government incentives

According to Figure 4.6, only 26% of the respondents are aware of the incentives that the South Africa Government offers. More awareness of these incentives should be created, for example, at investment conferences, or on the Internet as well as to estate agents, so that the agents can provide sufficient accurate information to foreign investors.

4.2.11 GOVERNMENT'S PROPOSED LIMITATION OF FDI ON SA PROPERTY

For the government of South Africa, foreign landowners have recently become a thorny issue. The government is concerned about how much property and land in South Africa is owned by foreigners and citizens of countries with strong currencies. This can result in higher prices, (as previously mentioned) for example in the Western Cape currently 30% of the estates in Cape Town and its

surrounds belong to foreigners (Gunning, 2003) and thus make it very difficult for the local inhabitants to acquire property at affordable prices.

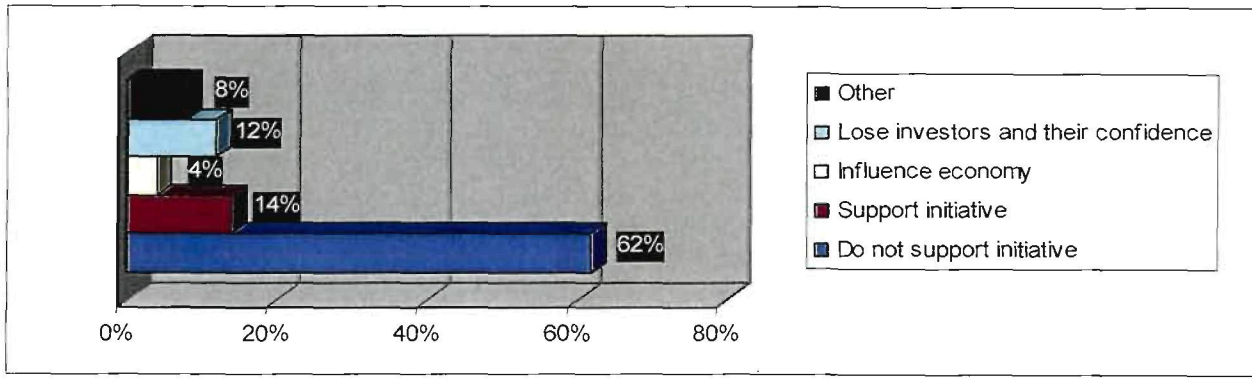

Figure 4.7: Government's proposed limitation on foreign investments

From Figure 4.7, it can be seen that 62% of the respondents do not support the initiative by the South African government to limit foreign investors buying South African property. Only 14% of the respondents support this initiative for they indicated that other countries also have limitations on foreign investors. The parameters in this regard must also be clear. 12% indicated that South Africa will lose investors as well as their confidence if this limitation is implemented by the South African government. A further 4% indicated that it will negatively influence the economy of South Africa as well as reducing job opportunities. Eight (8) percent of the respondents indicated that foreign investors believe their investment increase the prices of South African property, and that the proposed intervention by the government of South Africa will limit positive immigration. As mentioned before (cf. 2.5.1) positive immigration to South Africa has several advantages (cf. 2.5.1).

4.2.12 THE IMPACT OF THE GOVERNMENT'S PROPOSED LIMITATION ON FDI IN PROPERTY

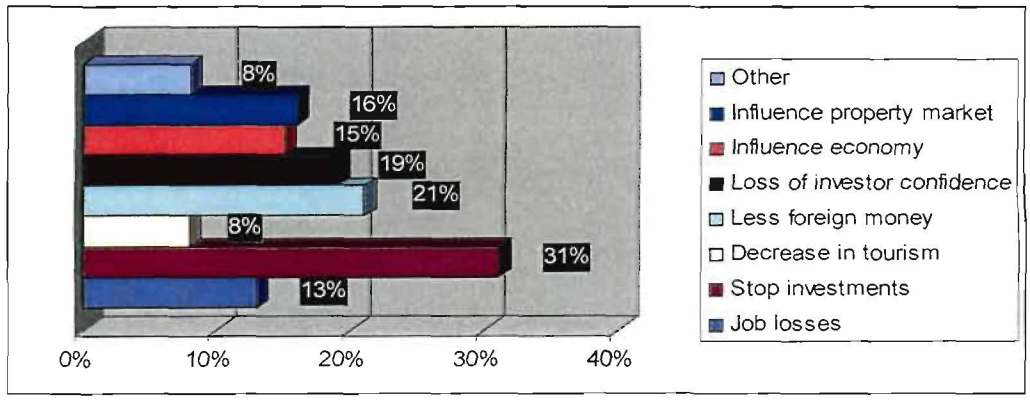

Figure 4.8: The impact of the South African government' proposed limitation

Figure 4.8 draws attention to what the foreign investors feel the impacts will be, if the South African government implements the limitation on foreign investors:

- 21% indicated that South Africa will get less foreign money;
- 19% indicated a loss of investor confidence;
- 16% of the respondents said that it will have an influence on the property market;
- 15% indicated that it will negatively influence the economy of South Africa;
- It will result in job losses (13%);
- 8% of the respondents indicated that a decrease in tourism will take place and that it will result in expropriation of land as well as tax implications.

The government must seriously consider the former, before making the decision of limiting FDI in South Africa.

The following Table 4.9 displays the motivational factors that foreign investors take into consideration when investing in South Africa. The percentages are provided by the respondents that completed the questionnaire.

4.2.13 FACTORS THAT WILL MOTIVATE FOREIGNERS TO INVEST IN SOUTH AFRICA

Table 4.9: Motivational factors that will influence foreign direct investment in SA

REASONS	1	2	3	4	5
	Very important	Important	Average	Less important	Not important at all
Climate	**78**	18	4	0	0
Scenery	**73**	24	3	0	0
Location	**64**	29	6	0	1
Wildlife	27	33	**29**	9	2
Big 7	21	28	**30**	15	6
Malaria	**40**	10	21	14	15
Growth of international travel to South Africa	26	**43**	21	6	4

REASONS	1	2	3	4	5
	Very important	Important	Average	Less important	Not important at all
Infrastructure: Location of Airports	33	**50**	13	3	1
Infrastructure: Availability of good roads	38	**43**	17	1	1
Infrastructure: Harbours	9	19	**34**	23	15
Incentives that the South African government offers	17	**23**	**25**	**26**	9
Logistics	18	**42**	33	3	4
Local market size	8	**43**	32	11	6
Availability of natural resources/raw materials	9	22	**29**	**29**	11
Historical/personal links with Africa	9	31	**28**	21	11
Privatisation/public-private partnerships	7	20	**33**	23	17
Entrance to African markets	8	20	**30**	27	15
Environmental legislation	22	**41**	23	9	5
Institutions: Availability of banks	**44**	39	12	2	3
Institutions: Legal rights	**45**	35	14	3	3
Crime	**76**	17	4	2	1
Communication infrastructure	**50**	34	12	2	2
HIV/AIDS	**30**	21	23	18	8
Political stability	**63**	26	8	1	2
Industry charters (Black economic empowerment)	8	16	**38**	21	17
Bureaucracy	19	27	**36**	14	4
Business confidence	**40**	42	15	1	2
Political factors					
Improvement of constitutional negotiations	14	**35**	**37**	9	5
Level of unrest/disturbance	**61**	29	5	1	4

REASONS	1	2	3	4	5
	Very important	Important	Average	Less important	Not important at all
Zimbabwe	**35**	28	22	10	5
Terrorism	**58**	22	8	7	5
Economic factors					
Profitability of the game farm/lodge/hotels	33	**36**	25	4	2
Market size and growth of the market	29	**51**	16	3	1
Inflation	22	**46**	21	7	4
Protection of investment companies	37	**43**	13	3	4
Interest rate	**44**	27	19	7	3
The economy of South Africa	**52**	37	10	0	1
Expected high return	33	**47**	18	0	2
Foreign exchange	**56**	30	8	3	3
Labour factors					
Labour costs for example low skilled or high skilled labour costs	14	**37**	35	8	6
Level of trained employees	15	**44**	29	6	6
Labour disturbance/unrest	**49**	32	14	2	3
Labour law of South Africa	30	**32**	28	5	5
Financial factors					
Volatility of the currency (for example South African Rand vs. American Dollar)	**56**	33	9	0	2
Financial markets	40	**47**	9	2	2

Motivational factors that prompt FDI in properties in the South African Tourism Industry are listed in Table 10.9, and were rated as important to very important:

- Climate (78%)
- Scenery (73%)
- Location (64%)

- Infrastructure: Availability of fresh water (63%)
- Infrastructure: Availability of airports (50%)
- Crime (76%)
- Communication infrastructure (50%)
- Political stability (63%)
- Level of unrest/disturbance (61%)
- Government regulations of South Africa with regard to international buyers (58%)
- Market size and growth of the market (51%)
- The economy of South Africa (52%)
- Foreign exchange (56%)
- Volatility of the currency (SA Rand vs. American Dollar) (56%)

The following were rated as average motivational factors:

- Wildlife (29%)
- Big 7 (30%)
- Infrastructure: Availability of harbours (34%)
- Availability of natural resources/raw materials (29%)
- Privatisation/public partnerships (33%)
- Entrance to African markets (30%)
- Industry charters (Black Economic Empowerment) (33%)
- Bureaucracy (36%)
- Improvement of constitutional negotiations (37%)

The latter were rated as less important to not at all important motivational factors:

- Incentives that the South African government offers (26%)
- Availability of natural resources/raw materials (29%)

This data was further statistically analysed by means of the SAS-programme (SAS Institute Inc, 2001). A principal axis confirmatory factor analysis with Promax rotation was performed for the motivational factors that play a role in foreigners' decision to invest in South Africa, where five factors were retained, explaining 53.8% of the variance. The communalities varied between .28 for negotiations and .70 for unrest. The factors of climate, scenery, and location had significant loadings on more than one factor and were removed from the factor analysis. These factors will be discussed individually. The reason for undertaking a factor analysis is to correlate questions in the

questionnaire and grouped them together as one factor. The results from the factor analysis are given in (Table 4.10):

Table 4.10: Principal axis confirmatory factor analysis with Promax rotation on the motivational factors

	FACTORS				
	1 Perception & infrastructure	2 Government & policy	3 Economy	4 Competitiveness	5 Nature
Level of unrest/disturbance	.900				
Crime	.898				
Political stability	.686				
Government regulations of South Africa with regard to international buyers	.686				
Communication infrastructure	.596				
Foreign exchange	.594				
Legal rights	.565				
Availability of Banks	.551				
R vs. $	.476				
Availability of fresh water	.463				
Location of Airports	.459				
Terrorism	.459				
Legislation	.442				
HIV/Aids	.375				
Influence of the situation in Zimbabwe to sell properties to international buyers	.368				
Logistics	.348				
Malaria	.341				
Improvement of constitutional negotiations	.237				
Business confidence	.364				
Labour disturbance/unrest	.344				
Availability of roads	.306				
Labour costs		.618			
Industry charters (BEE)		.581			
Bureaucracy		.556			
Level of trained employees		.552			
Labour law of SA		.465			

	FACTORS				
	1 Perception & infrastructure	2 Government & policy	3 Economy	4 Competitiveness	5 Nature
Market size and growth of the market			.886		
The economy of South Africa			.694		
Expected high return			.634		
Inflation			.609		
Profitability of the game farm/lodge/hotel			.564		
Interest rate			.503		
Privatisation/ public-private partnerships				.647	
Historical/personal links with Africa				.579	
Harbours				.546	
Incentives that the South African government offers				.492	
Local market size				.486	
Availability of natural resources/raw material				.473	
Entrance to African markets				.452	
Growth of international travel to South Africa				.316	
Wildlife					.920
Big 7					.833

The following names were given to the factors:

- Factor 1: Perception and infrastructure;
- Factor 2: Government & policy;
- Factor 3: Economy;
- Factor 4: Competitiveness; and
- Factor 5: Nature.

Factor 1 (Perception and infrastructure) consists of:

- Unrest;
- Crime;
- Political stability;
- Government regulations of South Africa with regard to international buyers;
- Communication infrastructure;

- Foreign exchange;
- Legal rights;
- Availability of banks;
- R vs. $;
- Availability of fresh water;
- Location of airports;
- HIV/Aids;
- Influence of the situation in Zimbabwe on the sales of properties to international buyers;
- Logistics;
- Malaria;
- Improvement of constitutional negotiations;
- Business confidence;
- Labour disturbance/unrest; and
- Availability of roads.

Factor 2 (Government & Policy) consists of:

- Labour costs;
- Industry charters (BEE);
- Bureaucracy;
- Level of trained employees; and
- Labour law of South Africa.

Factor 3 (Economy) consists of:

- Protection of investment companies;
- Market size and growth of the market;
- The economy of South Africa;
- Expected high returns;
- Inflation;
- Profitability of the game farm/lodge/hotels; and
- Interest rate.

Factor 4 (Competitiveness) consists of:

- Privation/public-private partnerships;

- Historical/personal links with Africa;
- Harbours;
- Incentives that the South African Government offers;
- Local market size;
- Availability of natural resources/raw materials;
- Entrance to African markets; and
- Growth of international travel to South Africa.

Factor 5 (Nature) consists of:

- Wildlife; and
- Big 7.

The correlations between the factors are given in Table 4.11

Table 4.11: Factor Correlation Matrix between key factors for the motivational factor

Factor	1	2	3	4	5
1	1.000	.512	.600	.419	.164
2	.512	1.000	.455	.313	.302
3	.600	.455	1.000	.455	.292
4	.419	.313	.455	1.000	.311
5	.164	.302	.292	.311	1.000

This indicates correlations that have practical significant (Ellis & Steyn, 2003) between factor 1 (Perception and infrastructure) and factors 2, 3, and 4 (Government & policy, Economy and Competitiveness). There is also a practically-important correlation between Government & Policy and Economy, and between Economy and Competitiveness. Economic literature shows that political stability and governance are important factors for FDI (Naude & Krugell, 2007; Asiedu, 2002).

Table 4.12: Descriptive statistics on aggregated key factors

Variable	Valid N	Mean	Median	Minimum	Maximum	Std. Dev.
Climate	114	1.271930	1.000000	1.000000	3.000000	0.536872
Scenery	114	1.289474	1.000000	1.000000	3.000000	0.510486
Location	113	1.451327	1.000000	1.000000	5.000000	0.694251
Perception & infrastructure	115	1.962322	1.869565	1.000000	5.000000	0.625185
Government & policy	113	2.615044	2.600000	1.000000	5.000000	0.811356
Economy	115	1.940041	1.857143	1.000000	5.000000	0.647677
Competitiveness	113	2.885324	2.750000	1.000000	5.000000	0.775588
Nature	112	2.406250	2.250000	1.000000	5.000000	1.043062

Loadings smaller than 0.3 were suppressed. The mean of all items contribution to a particular key factor were calculated to obtain a score for each participant. The importance of key factors can be deducted from the mean and median values of these aggregated key factors.

Table 4.13: Profile of the top 5 countries investing in South Africa

UK		GERMANY		USA		NETHERLANDS		FRANCE	
	%		%		%		%		%
Offices		**Offices**		**Offices**		**Offices**		**Offices**	
Knysna	7.3	Knysna	8.3	Danabay	11.8	Knysna	20.0	Cape Town	9.0
Sedgefield	6.5	Sedgefield	7.1	Hartenbos	11.8	Mosselbay	16.6	East london	9.0
Plettenbergbay	5.1	Plettenbergbay	5.9	Hoedspruit	11.8	Plettenberg Bay	10.0	Great brak river	9.0
George	4.4	George	5.9	Plettenberg Bay	11.8			Hartenbos	9.0
Mosselbay	3.6	Mosselbay	5.9	Sedgefield	11.8			Hermanus	9.0
								Hoedspruit	9.0
								Lonehill	9.0
								Plettenbergbay	9.0
								Stellenbosch	9.0
								Stil bay	9.0
								Swellendam	9.0
Average Years in business	10.1	**Average Years in business**	10.6	**Average Years in business**	10.1	**Average Years in business**	10.4	**Average Years in business**	12.6
Average Foreign Sales	14.8	**Average Foreign Sales**	15.3	**Average Foreign Sales**	14.0	**Average Foreign Sales**	13.2	**Average Foreign Sales**	13.8
Reasons		**Reasons**		**Reasons**		**Reasons**		**Reasons**	
Climate	18.1	Climate	17.2	Climate	14.3	Investment	25.9	Climate	9.7
Investment	10.9	Investment	12.9	Scenery	10.7	Lifestyle	18.5	Holiday	9.7
Cheap	9.4	Lifestyle	9.7	Lifestyle	7.1	Value	18.5	Lifestyle	6.5
Value	8.0	Value	8.6	Cheap	7.1	Holiday	14.8	Scenery	6.5
Lifestyle	7.2	Price	7.5	Price	7.1	Currency	14.8	Price	6.5
Popular Products		**Popular Products**		**Popular Products**		**Popular Products**		**Popular Products**	
Game reserve	11.1	Houses	10.7	Game reserve	12.6	Golf estate	11.6	Game reserve	13.4
Golf estate	10.7	Game reserve	10.4	Holiday apartment	12.6	Game reserve	10.0	Wine farm	11.9

Houses	9.4	Golf estate	10.1	Golf estate	10.7	Holiday apartment	9.5	Golf estate	10.5
Holiday apartment	8.8	Bed and breakfast	9.4	Houses	10.7	Resorts	8.4	Holiday apartment	10.5
Bed and breakfast	8.8	Guesthouses	9.4	Lodges	8.7	Houses	8.4		
Wine farm	8.8								
Bought as:		**Bought as:**		**Bought as:**		**Bought as:**		**Bought as:**	
Individual	93.0	Individual	90.0	Individual	76.2	Individual	94.0	Individual	92.0
Consortium	3.5	Consortium	4.0	Consortium	9.5	Consortium	6.0	Consortium	0.0
Organisation	3.5	Organisation	2.0	Organisation	14.3	Organisation	0.0	Organisation	8.0
		Trusts	2.0						
		Couples	2.0						
Average Loans	26.1	**Average Loans**	37.8	**Average Loans**	40.1	**Average Loans**	25.5	**Average Loans**	32.0
Incentive Awareness		**Incentive Awareness**		**Incentive Awareness**		**Incentive Awareness**		**Incentive Awareness**	
Yes	27.4	Yes	35.4	Yes	29.0	Yes	20.0	Yes	36.4
No	72.6	No	64.6	No	71.0	No	80.0	No	63.6
Motivating Factors		**Motivating Factors**		**Motivating Factors**		**Motivating Factors**		**Motivating Factors**	
Crime	1.21	Climate	1.20	Location	1.18	Scenery	1.23	Terrorism	1.14
Climate	1.22	Scenery	1.42	Scenery	1.18	Climate	1.23	Crime	1.27
Scenery	1.31	Crime	1.33	Climate	1.18	Crime	1.27	Regulations	1.29
Location	1.44	Rand vs Dollar	1.39	Disturbance	1.29	Communication infrastructure	1.50	Political stability	1.29
Political stability	1.46	Political stability	1.43	Rand vs Dollar	1.41	Location	1.50	Profit	1.86
Average Total Spent	4.18 mil	**Average Total Spent**	3.67 mil	**Average Total Spent**	11.18 mil	**Average Total Spent**	5.10 mil	**Average Total Spent**	10.35 mil

UK		GERMANY		USA		NETHERLANDS		FRANCE	
	%		%		%		%		%
Incentive Awareness		**Incentive Awareness**		**Incentive Awareness**		**Incentive Awareness**		**Incentive Awareness**	
Yes	27.4	Yes	35.4	Yes	29.0	Yes	20.0	Yes	36.4
No	72.6	No	64.6	No	71.0	No	80.0	No	63.6
Motivating Factors		**Motivating Factors**		**Motivating Factors**		**Motivating Factors**		**Motivating Factors**	
Crime	1.21	Climate	1.20	Location	1.18	Scenery	1.23	Terrorism	1.14
Climate	1.22	Scenery	1.42	Scenery	1.18	Climate	1.23	Crime	1.27
Scenery	1.31	Crime	1.33	Climate	1.18	Crime	1.27	Regulations	1.29
Location	1.44	Rand vs. Dollar	1.39	Disturbance	1.29	Communication infrastructure	1.50	Political stability	1.29
Political stability	1.46	Political stability	1.43	Rand vs. Dollar	1.41	Location	1.50	Profit	1.86
Average Total Spent	4.18 mil	**Average Total Spent**	3.67 mil	**Average Total Spent**	11.18 mil	**Average Total Spent**	5.10 mil	**Average Total Spent**	10.35 mil

The following summarises the results outlined in Table 4.12:

- **USA:**

  Investors from the USA invest in South Africa because of: South Africa's climate; scenery; lifestyle; prices comparing to the rest of the world, and because it is inexpensive to buy property in South Africa. Most of the investments were made by individuals, followed by organisations, and lastly consortiums. They were interested in the following tourism products: game reserves, holiday apartments, golf estates, houses, and lodges. Only 29% of the investors from the USA are aware of incentives offered by the South African government. Investors from the USA spend an average of R11.18 million on properties. Factors motivating investors from the USA to invest in South Africa are climate; scenery; location, lack of disturbance, and the Rand vs. the Dollar exchange rate.

- **FRANCE:**

  Investors from France invest in South Africa because of: South Africa's climate; scenery; holiday purposes; prices compared to the rest of the world; as well as lifestyle. Most of the investments were made by individuals, and they were interested in the following tourism products: game reserves, golf estates, holiday apartments, and wine farms. Some 36% of the investors from France are aware of incentives offered by the South African government. Investors from France spend an average of R10.35 million on properties. Factors that were motivating investors from France to invest in South Africa are the possibility of profit; political stability; regulations, lack of crime and terrorism.

- **THE NETHERLANDS:**

  Investors from the Netherlands invest in South Africa because of: South Africa's lifestyle, value for money; holiday purposes; prices compared to the rest of the world; for the sake of making an investment in a foreign country, as well as the currency conversion advantages. Most of the investments were made by individuals, followed by consortiums and they were interested in the following tourism products: game reserves, golf estates, houses, holiday apartments, as well as resorts. Eighty (80) per cent of the investors from the Netherlands are **not** aware of any incentives offered by the South African government. Investors from the Netherlands spend an average of R5.10 million on properties. Factors that were motivating investors from the Netherlands to invest in South Africa are climate, scenery, lack of crime, location, and communication infrastructures.

- **UK:**

  Investors from the UK invest in South Africa because of: South Africa's climate; value for money; for the sake of making an investment in a foreign country, that it is cheap to buy property in South Africa, as well as lifestyle considerations. Most of the investments were made by individuals, followed by consortiums and organisations. They were interested in the following tourism products: game reserves, golf estates, holiday apartments, wine farms, houses, and Bed & Breakfasts. Only 27.4%% of the investors from the UK are aware of any incentives offered by the South African government. Investors from the UK spend an average of R4.18 million on properties. Factors that were motivating investors from the UK to invest in South Africa are climate, scenery, location, crime, and political stability.

- **GERMANY:**

  Investors from Germany invest in South Africa as a result of: South Africa's climate; scenery; value for money; prices that compare favourably to the rest of the world; for the sake of making an investment in a foreign country, as well as lifestyle considerations. Most of the investments were made by individuals, followed by consortiums, organisations, trusts, and couples. They were interested in the following tourism products: game reserves, golf estates, houses, Bed & Breakfasts, as well as guesthouses. Only 35.4% of the investors from Germany are aware of any incentives offered by the South African government. Investors from Germany spend an average of R3.67 million on properties. Factors that were motivating investors from Germany to invest in South Africa are climate, scenery, political stability; rand vs. dollar exchange rate; as well as lack of crime.

4.2.14 MOST IMPORTANT FACTORS THAT FOREIGNERS CONSIDER WHEN DECIDING TO INVEST IN SOUTH AFRICA

The questionnaire provided the respondents with numerous determinants for foreign investors. The respondents then chose the factor that they thought was the most important factor (provided to them in the questionnaire) that foreigners consider when investing in South Africa. The following information shows a variety of factors when foreigners consider investing in South Africa:

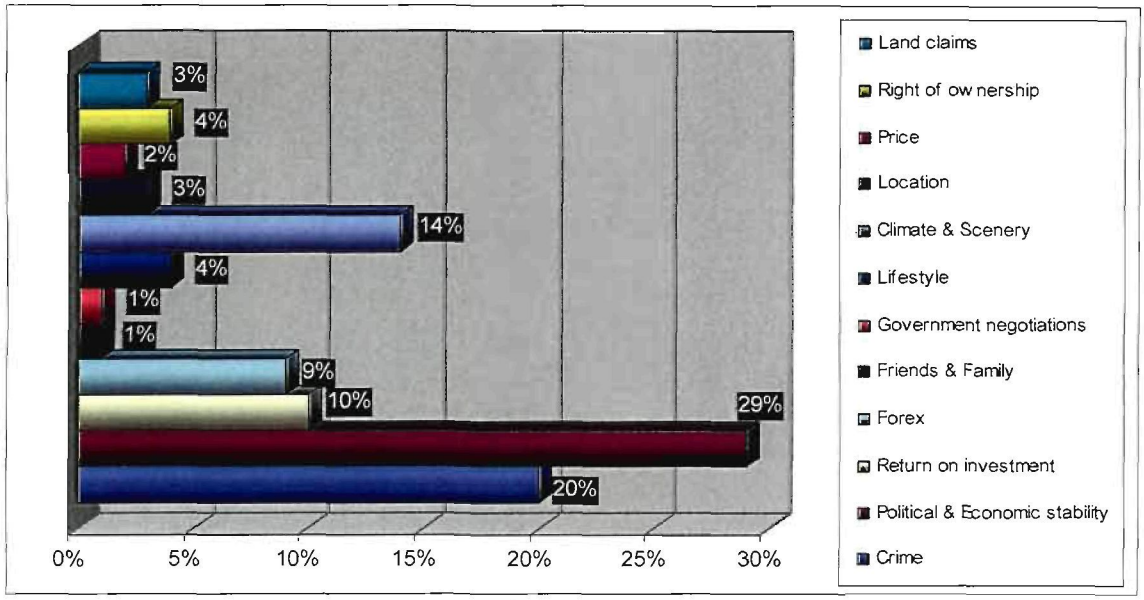

Figure 4.9 Most important factors that foreigners consider to invest in SA

Figure 4.9 indicates that the following main factors play a role when they consider investing in South Africa: political and economical stability (29%), crime (20%), climate and scenery (14%), return on investment (10%) and Forex (9%). The South African government can learn from these responses in order to address the problems, to ensure that foreign investors will still invest, and thus to assist economic stability in South Africa.

4.2.15 THE AMOUNT OF MONEY SPENT BY FOREIGN INVESTORS ON PROPERTIES

Table 4.14: Money spent on properties

AMOUNT SPENT IN R MILLION	PERCENTAGE
Under R1 million	6
R1 million – R5 million	80
R6 million - R10 million	7
R11 million - R20 million	5
R21 million - R50 million	1
More than R50 million	1

Table 4.11 shows that foreign investors mostly (80%) bought properties valued between R1-R5 million rand while 7% bought properties for values between R6-R10 million rand. Foreign investment should be encouraged as the Table 4.11 clearly shows the willingness of foreign investors to pay large amounts of money for South African properties. The respondents indicated that the average South Africans cannot afford to buy properties of such high values. The foreign

currency that comes into South Africa as a result of these investments will, once again, positively impact the economy of South Africa and create job opportunities for South Africans.

4.2.16 THE ROLE OF SOUTH AFRICAN TOURISM (SAT) IN PROMOTING FDI

Apart from SAT's role to promote South Africa as a tourism destination, the respondents indicated that there are two main things that SA Tourism can do to promote FDI:

- Firstly, to work closely with estate agents in providing property information at trade shows, in magazines and on SAT's website. These marketing tools should therefore, educate foreign investors about buying property in SA; indicating the benefits gained by owning property in SA; and the value for money spent when investing in South Africa; and
- Secondly, SAT should influence the government of SA to provide more incentives to potential foreign investors; convince the government to take harsher measure to reduce crime; as well as to convince the government to protect foreign ownership in South Africa.

As previously stated, SAT's primary role is to promote South Africa as a tourism destination, however, the IMC is a PPP mandated to position South Africa as one of the highly considered, non-traditional markets in terms of world trade, investment and tourism by 2010.

The IMC's mission is three-pronged:

- To establish a brand for South Africa (Brand South Africa), which positions the country in terms of its investment and credit worthiness, exports, tourism and international relations objectives;
- To establish an integrated approach within government and the private sector towards the international marketing of South Africa;
- To build national support for the brand within South Africa itself; and
- To achieve this, the IMC enlists the cooperation of government departments, public entities, the private sector, and the non-governmental organisations.

IMC's mandate is extensive and covers an enveloping approach to the marketing of Brand South Africa:

- Delivering one image of South Africa through a clear, co-ordinated effort will amount to billions of Rand's worth of brand building messaging reaching across the globe;
- To provide context and balance in the news and to approach the press proactively rather than reactively; and

- Focusing efforts on Tourism, Trade, and Investment. These three areas each have tremendous potential for job creation. By encouraging the creation of employment, IMC strives to curb poverty (IMC, 2007).

This study suggests that the IMC must liaise with estate agents in such a way as to assist foreign investors when buying property in South Africa.

4.2.17 THE ROLE OF THE GOVERNMENT OF SOUTH AFRICA IN PROMOTING FDI

This was an open question in the questionnaire in order to determine what the respondents think the role of the South African government is, or should be. The respondents have various ideas on how the South African Government should promote FDI. These ideas include the following:

- Promote South Africa as a safe, investor-friendly environment by protecting foreign ownership,
- Reduce crime, corruption and taxes, assist foreign investors in obtaining finance;
- Reduce taxes and improve political and economic stability;
- The government should work closely with the media to report favourably on South Africa and be more transparent about future prospects; as well as to settle negative influences on land claims;
- Be mindful of political statements indicating the Zimbabwean option;
- Evaluate the laws on foreign investment to stimulate foreigners to invest in South Africa;
- Upgrade infrastructure;
- Mitigate sovereignty risk;
- Work closer with the property market;
- Exempt foreign buyers from CGT;
- Define the South African lifestyle with the rest of Africa;
- Reduce red tape; and
- Maintain the status quo and create info bureaus for environmental issues.

There is, thus, a need for the government of South Africa to send out positive signals to the world regarding foreign investment and political issues in South Africa. Most foreigners do not want to buy property in SA any longer because the Mediterranean Sea is closer to their homes, that their purchases are seen as more secure, that investors feel safer and because the Mediterranean apparently offers better value for money. Because of the former, South Africa is increasingly losing much-needed FDI.

4.3 CONCLUSION

The aim of this chapter was to analyse the results of the empirical study. Important aspects that were measured in this research include the following:

- The countries of origin of foreign investors;
- The reasons why foreign investors invest in South Africa;
- The most popular tourism products that foreign investors buy;
- Common problems experienced by foreign investors when investing in South Africa;
- The government of South Africa's proposed limitation of FDI as well as the impact thereof on South African property;
- Motivational factors that will positively influence foreign investors to invest in South Africa; and
- The role of the South African government and institutions
- *The determinants of FDI play an important role in attracting foreign investors.*

The results are summarised in Table 4.14.

Table 4.14: Components of the FDI model

COMPONENTS	DESCRIPTION
South African government	Develop incentives specifically for the Tourism Industry Parameters of implementing limitations on FDI must be clear Ensuring political and economic stability Creating an investor friendly environment Addressing the crime in South Africa
Institutions	Securing future investment Liaise with other organisations and estate agents Develop a sustainable marketing campaign for foreign investors
Macro determinants	Openness and exports Exchange rates Inflation rates Investment and infrastructure Political instability
Micro determinants	Market size and growth Host government policies Tariffs and trade barriers Labour costs Product life cycle
Tourism characteristics	Climate Scenery Tourism products Infrastructure Services Tourism growth potential

From the results, it is clear that the South African government is responsible for developing incentives that focus on the Tourism Industry. Several incentives currently exist, but there is a

need for tourism-specific incentives. The South African government should ensure a safe, investment friendly environment, which include crime prevention and creating political and economic stability.

The main role of institutions, such as SAT, IMC and IPA's, is to secure future FDIs. These institutions should develop a sustainable marketing campaign that should also focus on prospective foreign investors. It is imperative that these institutions liaise with each another so that all possible barriers and misconceptions be eliminated.

Each of the determinants and tourism characteristics mentioned are important to attract FDI. The above can positively influence FDI if appropriate attention is given to it.

Chapter 5 will present the conclusions and recommendations made regarding FDI in the South African Tourism Industry. A model will be compiled from the literature study and through the quantitative research. These methods indicate the role of the South African government and institutions as well as the determinants of FDI.

Future research that can be undertaken on this much-debated topic will also be a focal point of Chapter 5.

5 CONCLUSIONS AND RECOMMENDATIONS

> "Investment is important because it brings not just money; it brings the technology that is needed, and it brings marketing capacity and jobs"
>
> *James Wolfensohn*

5.1 INTRODUCTION

Chapter 5 concludes the research undertaken, and so the aim of this chapter is to clarify the conclusions of the research and to make recommendations arising from the research.

The main purpose of this research was to develop a FDI model for the South African Tourism Industry. Four research objectives were derived from the main aim of the research. The first objective was to establish what it is that South Africa has to offer to foreign investors. Secondly, to establish the determinants and the country's tourism characteristics that will influence FDI. The third objective was to determine the role of the South African government and institutions in promoting FDI. Lastly, conclusions were to be drawn and recommendations made.

In Chapter 1, an overview of this research was discussed. The introduction and problem statement were expounded, namely, the importance of FDI and what South Africa has to offer to attract FDIs. The other objectives were determined, after which the research methods and basic concepts were explained and clarified.

Chapter 2 provides an overview of FDI. It also focused on various theories of FDI and determinants and a country's tourism characteristics that will influence FDI were examined, which is the second objective (cf. 1.3.2). The chapter further highlighted the types of entry methods of FDI that investors can choose from so as to invest in a country. Thereafter, the advantages and disadvantages of FDI were discussed.

The first and third objective was developed through the literature study in Chapter 3, focussing what South Africa has to offer to foreign investors as well as on the role of the South African government and institutions with respect to FDI (cf. 1.3.2). Incentives and policies were discussed to that were proposed to attract FDI to South Africa.

In chapter 4, the results of the empirical research were reflected upon in order to identify the determinants for FDI, as well as the role that the South African government should play. Responses to the questionnaire were interpreted and possible determinants of FDI South African tourism were identified. From this research, various conclusions can now be drawn regarding the research objectives. These conclusions will be presented below.

5.2 CONTRIBUTION OF THE RESEARCH

The contribution of this study is to the subject of FDI in the South African Tourism Industry. These contributions can be listed more clearly:

- Firstly, the study indicated that not only do FDI determinants influence FDI, but also the tourism characteristics of a country somewhat determine whether a foreign investor decides to invest in a country;
- Secondly, a FDI model was developed, specifically for the South African Tourism Industry;
- Thirdly, the role that the South African government as well as institutions can play in attracting FDI was developed;
- Fourthly, there is a strong correlation between the foreign tourists who visit South Africa and the investments that took place.
- Fifthly, a profile of the Top 5 countries of origin investing in South Africa was compiled; and
- Sixthly, the findings of this study will be useful to the South African government, IPA's, legislators and policy-makers.

5.3 CONCLUSIONS

From the research, the following types of conclusions can be developed:

- Conclusions pertaining to FDI from the literature study;

- Conclusions regarding the role of the South African government and institutions with respect to FDI from the literature study; and
- Conclusions regarding the proposed FDI model for the South African Tourism Industry; empirical research.

5.3.1 CONCLUSIONS PERTAINING TO FDI FROM THE LITERATURE STUDY

The following are regarded to be the main conclusions with respect to research objective 2 (cf. 1.3.2):

- FDI is not a new phenomenon, but it can only take place if OLI exists (cf. 2.1);
- Political and economical stability, desires to sell products or services abroad, as well as low manufacturing costs are some of the motives or reasons for investors or MNC's to invest in foreign countries (cf. 2.2);
- The portfolio theory, the product life-cycle theory, an oligopoly model as well as the theory of OLI are used as the basis to explain and justify FDI (cf. 2.2);
- Determinants of FDI can be divided into two groups, namely micro- and macro-determinants (cf. 2.3);
- Micro determinants focus more on location-specific factors that have an impact on the profitability of FDI at an industry level. These determinants include market size and growth, labour costs, host government policies, tariff and trade barriers and the product life cycle (cf. 2.3.1);
- Macro-determinants of FDI are the factors that influence profitability and the choice to invest at an economy-wide level. These determinants include openness and exports, exchange rates, inflation rates, budget deficits, investment and infrastructure, and political instability (cf. 2.3.2);
- Tourism characteristics can also determine FDI to a country. These characteristics include the types of tourism products a country offer, services, location and accessibility of the products, as well as the tourism growth potential of a country (cf. 2.4);
- Development of suprastructures, M&As, JVs, equity alliances, licensing- and franchising agreements, and contract manufacturing are seven methods that a foreign investor or a MNC can choose from when they want to invest in a country (cf. 2.4); and finally,
- FDI can contribute positively (advantages) to the development of a country, however, there is no guarantee that it will have no negative impacts (disadvantages) on the host country (cf. 2.6.1 & 2.6.2).

5.3.2 CONCLUSIONS REGARDING THE ROLE OF THE SOUTH AFRICAN GOVERNMENT AND INSTITUTIONS IN FDI FROM THE LITERATURE STUDY

The following are regarded to be the main conclusions with respect to research objective 1 and 3 (cf. 1.3.2):

- The government of South Africa acknowledges the importance of attracting FDI to South Africa (cf. 3.1 & 3.2);
- Any attempt to design a policy that results in an increase in FDI into South Africa needs to be based on the understanding of what initially motivates investors to make investments (cf. 3.3.1);
- Major investment opportunities lie with SDI's, National Parks and provincial parks as well as PATIIS (cf. 3.3.2);
- Strategies that influence FDI are: GEAR, industry strategies, trade strategies, microeconomic reforms and AsgiSA (cf. 3.4);
- IPA's plays an important role in promoting FDI (cf. 3.5);
- Investors look for an investor climate that provides stability, and for certainty that they will make a profit that justifies the added expenses of foreign operations (cf. 3.5.2); and
- Global best practices in attracting FDI can form the basis of designing FDI policies in South Africa (cf. 3.6).

5.3.3 CONCLUSIONS REGARDING THE PROPOSED FOREIGN DIRECT INVESTMENT MODEL FOR THE SOUTH AFRICAN TOURISM INDUSTRY FROM THE SURVEY

The following are regarded to be the main conclusions to be drawn with respect to research objective 4 (cf. 1.3.2):

- The model consists of three components, namely role players, FDI determinants, and the buying process (Figure 5.1);
- The role players consist of the South African government, SA Tourism, IMC, and IPA's. These role players are responsible to attract and assist foreign investors to South Africa. These role players must liaise with each other in their efforts of attracting and assisting foreign investors;

- The FDI determinants encompass micro- and macro-determinants of FDI as well as the tourism characteristics of a country. These determinants and characteristics were discussed in Chapter 2. These aspects will determine whether a foreign investor will invest in South Africa;
- The buying process is the last component of the proposed model and include the following steps: Finding a registered broker or real estate agent, obtaining of legal documentation, investors must open a bank account, method of payment (whether they will be using cash or other means of payment), and whether registration of land must take place;
- The successful implementation of the model should lead to sustainable FDI to South Africa. However this model can be influenced by external factors such as: economical and political factors as well as the socio-cultural environment.

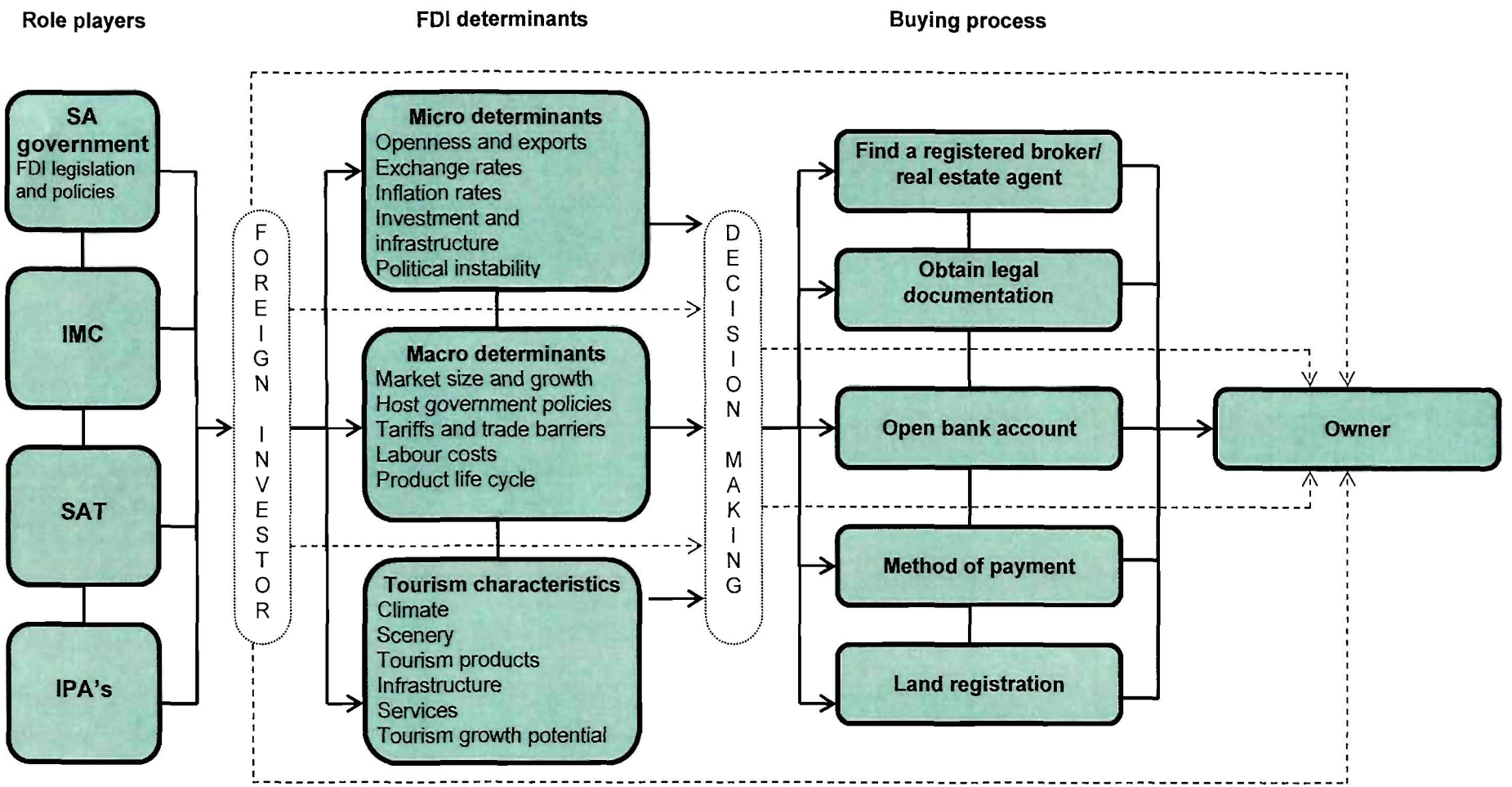

Figure 5.1: FDI model for the Tourism Industry

5.4 RECOMMENDATIONS

The following general recommendations, based on the literature study, and empirical research together with recommendations regarding further research that needs to be undertaken are proposed.

5.4.1 GENERAL RECOMMENDATIONS AND SUGGESTIONS

The following general recommendations and suggestions resulted from this research:

- This model should be implemented to ensure sustainable FDI in the South African Tourism Industry;
- Role players, such as the South African government, IMC, IPA's and SAT should liaise with each other to get the correct information to prospective foreign investors and to promote South Africa both as a prime tourism and as an investment friendly destination;
- There is a need for tourism incentives for prospective foreign investors. Only a few of the incentives that the South African government offers address tourism specifically.
- The South African government should address the crime factor in South Africa. The high crime rate in South Africa influences foreign investors negatively. More police officials should be trained and harsher punishments should be bestowed on offenders;
- FDI should be encouraged to ensure tourism development in South Africa. In order for South Africa to remain a global player, as well as to sustain tourist numbers, the country's tourism policy is to be government-led, private sector driven and community based. Therefore, tourism cannot fully develop without FDI; and
- The South African government should ensure economic and political stability to attract FDI successfully.

5.4.2 RECOMMENDATIONS WITH REGARD TO FURTHER RESEARCH

The following research questions have been developed through this study. These questions are recommended for further investigation:

- How will FDI-related legislation influence FDI to South Africa?
- What incentives can be developed specifically for tourism investors;

- What is the relation between tourists visiting South Africa and FDI in the Tourism Industry?
- What methodology can be used to determine the preferences of foreign investors?
- Which marketing strategies should be implemented to improve foreign investors' knowledge of incentives, investment processes, and opportunities?

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27 July 2005

To whom it may concern

The Institute for Tourism and Leisure Studies at the North West University (Potchefstroom Campus), which is the leading tourism research institution in South Africa, wants to do an investigation on tourism investment opportunities. Projects already done by the Institute include disability and tourism, the impact of crime on the tourism industry, tourism marketing of various products, tourism segmentation projects for SA National Parks and ecotourism projects which include the newly established Highveld National Park as well as several projects abroad.

However, one aspect that has not been thoroughly researched is foreign investments within the tourism industry. Coupled to this is the impact of proposed limitations of government on foreign investments in property. Your co-operation with regard to this matter is therefore important and the questionnaire will take only 15 minutes of your time to complete. Copy and paste the questionnaire into a word document and complete the questionnaire. Safe and send as an attachment to ontjas@puk.ac.za

I hope you find the above in order

Yours sincerely

Prof M Saayman
Head: Tourism management

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A)	GENERAL	
1.	Where is your office situated?	
2.	How many years of experience do you have in this business?	
3.	Indicate the percentage (%) of properties sold to local vs foreign buyers the past year.	

The following questions focus on properties sold to International buyers.			
B)	International buyers		
4.	From which countries do the top 5 foreign buyers come from?		
5.	Why do you think foreigners buy properties in SA?		
6.	What type of tourism product(s) is the most popular?		
	6.1	Game reserves	
	6.2	Bed and Breakfast	
	6.3	Casinos	
	6.4	Hotels	
	6.5	Golf estates	
	6.6	Resorts	
	6.7	Holiday apartments	
	6.8	Guest Houses	
	6.9	Houses	
	6.10	Lodge	
	6.11	Restaurant	
	6.12	Spa	
	6.13	Wine farms	
	6.14	Other: Please specify	
7a	Did they buy properties as:		
7b	Other: Please specify		

8.	What are the most common problems that foreign buyers experience when purchasing property in South Africa?	
9.	Indicate the percentage of foreign buyers that apply for money/loans in South Africa to buy properties.	
10.	Are you aware of the incentives that the South African Government offers to foreign buyers?	
11.	What is your opinion about the South African Government's proposed limitation on foreign investments in property?	
12.	According to you what is the greatest threat or implication of the Government's proposed limitation on foreign investments in property?	

13. **To what extent do the following factors play a role as motivation to buy properties in the South African tourism industry?**

		Very important 5	Important 4	Average 3	Less important 2	Not important at all 1
13.1	Climate	5	4	3	2	1
13.2	Scenery	5	4	3	2	1
13.3	Location	5	4	3	2	1
13.4	Wildlife	5	4	3	2	1
13.5	Big 5	5	4	3	2	1
13.6	Malaria	5	4	3	2	1
13.7	Growth of international travel to South Africa	5	4	3	2	1
13.8	Infrastructure: Availability of fresh water	5	4	3	2	1
13.9	Infrastructure: Location of Airports	5	4	3	2	1
13.10	Infrastructure: Availability of good roads	5	4	3	2	1

	13.11	Infrastructure: Harbours	5	4	3	2	1
	13.12	Incentives that the South African government offers	5	4	3	2	1
	13.13	Logistics	5	4	3	2	1
	13.14	Local market size	5	4	3	2	1
	13.15	Availability of natural resources/raw materials	5	4	3	2	1
	13.16	Historical/personal links with Africa	5	4	3	2	1
	13.17	Privatisation/public-private partnerships	5	4	3	2	1
	13.18	Entrance to African markets	5	4	3	2	1
	13.19	Environmental legislation	5	4	3	2	1
	13.20	Institutions: Availability of banks	5	4	3	2	1
	13.21	Institutions: Legal rights	5	4	3	2	1
	13.22	Crime	5	4	3	2	1
	13.24	Communication infrastructure	5	4	3	2	1
	13.25	HIV/AIDS	5	4	3	2	1
	13.26	Political stability	5	4	3	2	1
	13.27	Industry charters (Black economic empowerment)	5	4	3	2	1
	13.28	Bureaucracy	5	4	3	2	1
	13.29	Business confidence	5	4	3	2	1
Political factors:							
	13.30	Improvement of constitutional negotiations	5	4	3	2	1
	13.31	Level of unrest/disturbance	5	4	3	2	1
	13.32	Government regulations of South Africa with regard to International buyers	5	4	3	2	1

	13.33	Influence of the situation in Zimbabwe to sell properties to international buyers	5	4	3	2	1
	13.34	Terrorism	5	4	3	2	1
Economic factors							
	13.35	Profitability of the game farm / lodge / hotels	5	4	3	2	1
	13.36	Market size and growth of the market	5	4	3	2	1
	13.37	Inflation	5	4	3	2	1
	13.38	Protection of investment companies	5	4	3	2	1
	13.39	Interest rate	5	4	3	2	1
	13.40	The economy of South Africa	5	4	3	2	1
	13.41	Expected high return	5	4	3	2	1
	13.42	Foreign exchange	5	4	3	2	1
Labour factors							
	13.43	Labour costs for example low skilled or high skilled labour costs	5	4	3	2	1
	13.44	Level of trained employees	5	4	3	2	1
	13.45	Labour disturbance/unrest	5	4	3	2	1
	13.46	Labour law of South Africa	5	4	3	2	1
Financial factors							
	13.47	Volatility of the currency (for example South Rands vs American Dollar)	5	4	3	2	1
	13.48	Financial markets	5	4	3	2	1
14.	Of all the above factors, which one do international buyers consider as the most important factor for them to buy South African properties? Please justify your answer.						

15.	Indicate the total amount of money (currency) that foreign buyers spend when they bought property in SA?	
16.	According to you what can South African Tourism do to promote foreign sales?	
17.	According to you what can the Government of South Africa do to promote foreign sales?	
18.	Any suggestions or recommendations?	

Thank you!

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