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CHAPTER 1
INTRODUCTION

During the period 1984-1994 Swaziland attracted relatively large volumes of foreign investments in spite of having relatively low mineral and oil resources than other southern African countries. Basu and Srinivasan (2002) assert that the close proximity of Swaziland to South Africa offered investors specific location advantages for setting up production to access the large South African market and other African regional markets during the period of economic sanctions to South Africa. Following the political change in South Africa in 1994, some trans-national corporations relocated back to South Africa and Swaziland's share of green-field investments slowed down. The country has had to depend more on re-investments as a major source of foreign direct investment (FDI) and is experiencing a serious slow down in its economy with the annual GDP growth declining from a peak of 6.9% during the 1984-1994 period to an average 2.6% (and still declining) in 1994-2004 (World bank, 2005).

In their study of FDI in Swaziland, Basu et al (2002) contend that Swaziland complemented its specific location advantages with other factors like the political stability, the cheap and productive workforce and generous tax incentives to successfully attract investors during 1984-1994. Following the introduction of a democratic political climate in South Africa in 1994 and other internal changes in Swaziland, the determinants for foreign investment in Swaziland might have changed.

1.1 Statement of the problem

The main objective of the study is to investigate the importance rating of factors that foreign investors consider before undertaking investment in Swaziland. The research will also establish the investors' current satisfaction ratings of the factors. On the demand side of FDI, the study will investigate the government's FDI strategies for attracting investors with a

view to analysing whether or not the strategies are aligned with investors' perceptions.

1.1.1 The first sub-problem

To establish what factors foreign investors consider prior to undertaking investments in Swaziland.

1.1.2 The second sub-problem

To establish the importance ratings and the relative importance ranking of the determinants.

1.1.3 The third sub-problem

To determine the investors' current satisfaction ratings of the determinants.

1.1.4 The fourth sub-problem

To investigate the government's FDI promotion strategies with a view of establishing whether or not they are aligned with investors' perceptions.

1.2 Definitions and abbreviations

In this research, foreign investment and foreign direct investment should be taken to have the following meaning:

1.2.1 **Foreign Investment** (Lensink and Morrisey, 2002):

The movement of capital from the capital owner's country to a foreign country is called foreign investment. The investment in the host country can be classified in one of the following three forms

- portfolio investment – the investor through a stock exchange buys the firm's stock but is not involved in the operations or management of the firm

- loans – the investor makes available capital for firms in a foreign country
- foreign direct investment (FDI) – the investor puts in capital in a firm and is involved in the operations and management of the firm.

1.2.2 Foreign Direct Investment (Naude et al, 2003):

FDI refers to a type of foreign investment where as a result of the capital input, the investor acquires a lasting management interest (10 % or more) in a firm in an economy either than that of the investor. The FDI may be channelled through any of the following means

- Greenfield Investment – where the TNC sets up a new firm in the foreign country,
- Re-invested Earnings – the investor's share of earnings are not distributed or repatriated but are used for the firm's expansion in the foreign country,
- Equity Capital – purchase of at least 10% shares in an enterprise in the foreign country.

1.2.3 Abbreviations

AGOA	African Growth and Opportunity Act (of the United States)
COMESA	Common Market for Eastern and Southern Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
SADC	Southern African Development Community
SD	Swaziland
SSA	sub-Saharan Africa
TNC	Transnational Corporation
MNC	Multinational Corporation
M & A	Mergers and Acquisitions

1.3 Importance of the study

Most developing countries have intensified efforts and formulated policies to attract foreign direct investment in an effort to stimulate economic growth (Baloro & Nulliah (2003), Gilmore et al (2003), UNCTAD (2004b)). Indeed this is one of the primary goals of the SADC as well as COMESA.

The importance of investors' inputs in the structuring of FDI policies and incentives is illustrated in the study by Coskun (2001), who found that the Turkish government's emphasis on "low cost labour", "cheaper inputs" and "geographical location" in the country's FDI promotion strategy was a policy mis-design since their research found that investors viewed "the promising Turkish economy" and "the growing local market" to be important determinants for investing in Turkey. Research has also shown that investors accord different importance ratings on FDI determinants for different host countries. The research by Gilmore et al (2003) concludes that

> *"countries cannot follow a generic policy for attracting investors as the motivations and expectations of investors vary considerably and are contingent on the investors themselves and on the potential host market"* page 212.

The findings could contribute to the Swazi government's FDI policy makers in formulating appropriate policies and promotion strategies for attracting foreign investors. The satisfaction ratings of the factors will indicate which pre-set-up investors' expectations are met and which ones are not. Together with the relative importance rating of the factors, these findings will help policy makers in prioritising activities that would make Swaziland more competitive in attracting FDI.

1.4 Limitations of the Study

The study will only look at the perceptions of those investors that undertook FDI in Swaziland after 1994. Data will only be collected from those investors that set up green-field investments after 1994 or are in the process of establishing business in Swaziland and from those foreign investors who have re-investing their earnings in the last 12 years.

1.5 Delimitations of the study

The population of foreign investors is large and their perceptions vary. Factors that potential investors view to be so strongly negative that it deterred them completely from investing in Swaziland will not be established since data will only be collected from foreign investors already in the country.

1.6 Structure of the research report

The next chapter will give a background on Swaziland and its economy. It will also give an analysis of trends of FDI inflows into the country in the context of global (and particularly regional) FDI flows. Chapter three gives the literature review on FDI, its meaning, its effects on a host country's economy and determinants that have been found to influence FDI. Following the literature review, chapter four outlines the research questions that this study will seek to answer in order to achieve the objectives stated in paragraph 1.1. Chapter five gives the methodology used in carrying out the research and the methods used in analysing the data obtained. The sixth chapter gives the results obtained. The results are discussed in chapter 7. The references, questionnaires used and the raw data obtained attached as an appendix.

CHAPTER 2
BACKGROUND ON SWAZILAND'S ECONOMY

2.1 Introduction

The study is specifically concerned with factors that have influenced FDI flows into Swaziland after 1994. It is done in the context of Swaziland's declining economic performance as indicated by the slow down in economic growth (Central Bank of Swaziland 2004/5; Swaziland Government, 2005). The country's economic slow down has been attributed to low levels of FDI inflows, capital flight and deteriorating social infrastructure (Swaziland Government, 2004).

There is a general consensus in the literature on the positive association of foreign direct investment inflows to a developing country's economic growth (Olomola, 2004; Choi, 2004; Le and Suruga, 2005). In an attempt to stimulate economic growth, Swaziland has intensified its efforts to attract foreign direct investment. These efforts are evident from the establishment of the Swaziland Investment Promotion Agency, a public enterprise, whose mission is to "promote and facilitate foreign direct and local investment in Swaziland" (SIPA, 2005, page 1). The country's FDI focus is also clear from the past three year capital expenditure which has been biased towards the construction of roads and industrial parks infrastructure (Swaziland Government, 2004).

A background of the economic performance of Swaziland is necessary before the analysis of FDI inflows into the country is analysed in the context of global capital movement and FDI flows into the economic regions of the world including sub-Saharan Africa.

Swaziland

Swaziland is a 17, 363 square kilometres landlocked country situated in Southern Africa. It is geographically classified as one of the 48 member countries of sub-Saharan Africa. Swaziland is almost totally surrounded by South Africa, only

sharing a short border strip with Mozambique. The population is about 1.1 million. In 2002, formal employment was made up of the private sector with 66, 267 employees while the public sector had 29, 091 employees. Informal employment was estimated at 53,561 while unemployment was estimated at 30 % (Swaziland Government, 2004).

Swaziland is part of the Southern African Common Monetary Area (CMA) together with Lesotho, Namibia and South Africa. Within these four countries there are no exchange controls and the South African Rand is freely exchangeable. In addition the local currency, the Lilangeni, is linked to the South African Rand at par. Coupled with the geographical location, this makes South Africa Swaziland's strongest trading partner. Most imports and exports come from or go directly to South Africa.

2.2 Macroeconomic Indicators for Swaziland

2.2.1 Size and structure of the economy

Swaziland's economy is small even by sub-Saharan standards. The World Bank ranks Swaziland's economy size as the 141st in the world in terms of total gross domestic product (World Bank, 2005). Total GDP was estimated at $ 2, 413 million in 2004 and the table below shows the relative ranking of the economy size of Swaziland with that of other selected countries.

Table 1. GDP Ranking of some world economies

Source: World Bank (2005)

Ranking	Economy	GDP, $ million
1	USA	11,667,515
20	Turkey	301,950
27	South Africa	221,777
40	Singapore	106,818
102	Ethiopia	8,077
116	Mozambique	5,548
141	Swaziland	2,413
150	Lesotho	1,375
180	Tonga	213

Swaziland's economy, like that of other developing countries, is largely dependent on manufacturing and agriculture (with sugar and pulp being the main crops), see Figure 1 below.

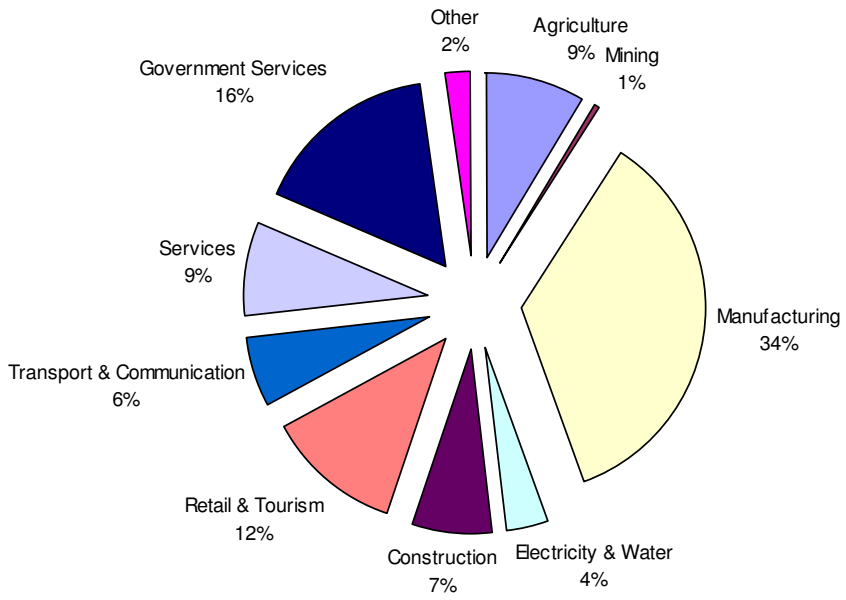

Figure 1. Percentage sector contribution to Swaziland's GDP in 2003

Source: Central Bank of Swaziland annual report 2004/5

The importance of the agricultural sector in the economy is clearer from the employment figures which show that the agricultural and forestry sector employees constitute 29% of the private sector employees (while manufacturing accounts for 30 %).

The value of exports in 2002 was equal to 90.8 % of GDP while imports were valued at 99.7 % of GDP (Swaziland Government, 2004). The openness of the economy coupled with its small size makes it highly susceptible to external shocks

and makes the economic growth rate highly dependent on global economic trends (Swaziland Government, 2004; Central Bank of Swaziland, 2005).

2.2.2 Trends in GDP growth in Swaziland

Swaziland enjoyed good economic performances in the 1980s up until the late 1990s where real GDP growth rates averaged 3.8 %. However, since 2000, the country has been facing serious economic pressures (Swaziland Government, 2005). Figure 2 below shows the 2000-2004 GDP growth trends for the country in comparison with average GDP growths for SSA countries and world GDP growth.

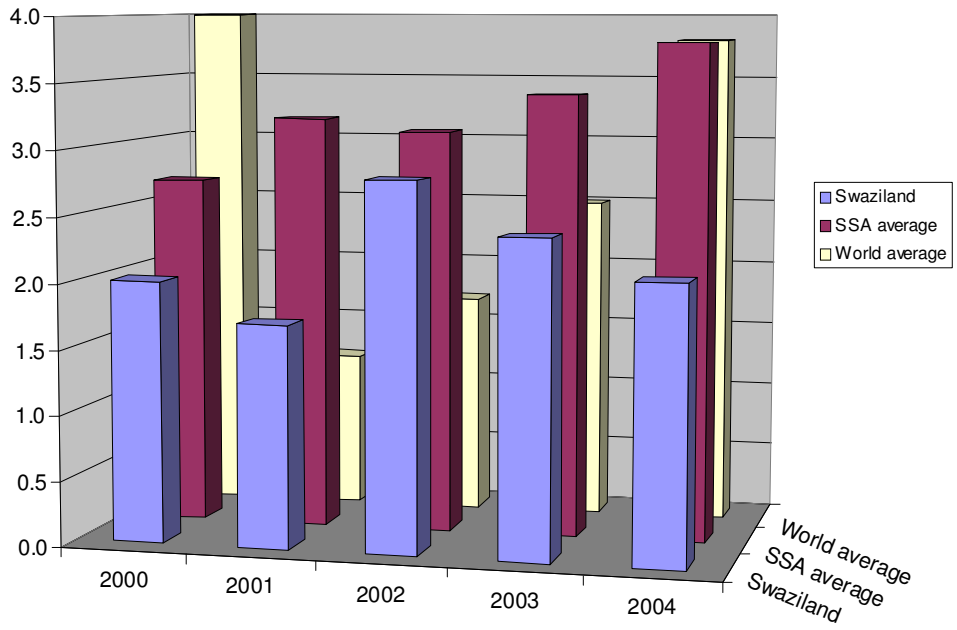

Figure 2. Comparison of Swaziland's GDP growth rates with the World and SSA averages.

Source: World Bank (2005) and Central Bank of Swaziland (2004/5)

Following a global economic slow down in 2001, the global economy accelerated to an average GDP growth of 3.8 % in 2004. The economic growth in SSA remained resilient in spite of the global slow down of 2001. Swaziland's economy on the other hand remains sluggish in spite of world and SSA economic recovering post 2002.

The economic decline in Swaziland has been attributed to low levels of FDI inflows and capital flight during this period, (Swaziland Government, 2004). This argument is consistent with the observation by Baloro et al (2003) who attribute Swaziland's 1980s economic boom to the relocation of South African based firms to Swaziland when economic sanctions were imposed on South Africa as a result of its then political regime (Swaziland Government 2004, Baloro et al 2003). Swaziland during this time became a willing and a suitable host country. When economic sanctions were lifted in South Africa, it drastically increased FDI competition for Swaziland. With economic conditions now favourable, some of the firms actually relocated back to South Africa from Swaziland. The performance of the agricultural sector has been negatively impacted by the drought spells experienced in this period. There was closure of the main mining companies including the Bulembu asbestos mine and hence GDP contributions from the mining sector fell. Swaziland's low average GDP growth of 2.2 % in the five years 2000-2004 is against an estimated population growth of 2.9 % which means there is deterioration in the standard of living in the country in terms of per capita income (Central Bank of Swaziland, 2004/5). Coupled with growing HIV/AIDS prevalence rates (UNAIDS, 2004) this can accelerate poverty.

2.2.3 World Bank Income classification of Swaziland

According to the gross national income (GNI) per capita classification of countries by the World Bank, Swaziland together with Namibia and South Africa are classified as lower middle-income countries. Table 2 below shows how the other sub-Saharan countries are classified under this system (World Bank, 2005)

Table 2. Classification of SSA countries according to GNI per capita

Source: World Bank (2005)

Classification	*GNI per capita*	*Sub-Saharan Country in this classification*
High Income	> $ 9,386	None of the SSA countries fall in this category
Upper Middle Income	$ 3, 036 - $ 9,385	Botswana Gabon Mauritius Mayotte Seychelles
Lower Middle Income	$ 766 - $ 3,035	Namibia South Africa Swaziland
Lower Income	<$ 765	All other SSA countries not listed above

Swaziland's GNI per capita was estimated at $1,660 in 2004 compared to an average of $600 for SSA and an average of $1,580 for all the middle income countries. This high GNI per capita has to be viewed in the context of a very high GINI coefficient of 0.609 showing that the economy is unevenly distributed and 66% of the population lives in poverty (Swaziland Government, 2005 & World Bank, 2005b).

2.2.4 World Bank Debt classification of Swaziland

The World Bank further classifies countries according to the level of external indebtedness. If a country's present value of debt service to Gross National Income ratio is above 80%, the country is classified as severely indebted. If the ratio is in the region of 60-80% then it falls under the moderately indebted classification and if the ratio is below 60% then it is classified as less indebted.

Swaziland is classified as a less indebted country alongside a number of SSA countries including Lesotho, Botswana, South Africa, Ghana and Mozambique.

2.3 Global FDI flow trends

After a steady sharp increase in the global flow of FDI leading to a peak of about $ 1,460 billion in the year 2000, there was a decline in global FDI flows from 2001 to 2002 (World Bank, 2005). Figure 4 below shows global FDI flow trends for the period 1997 to 2003.

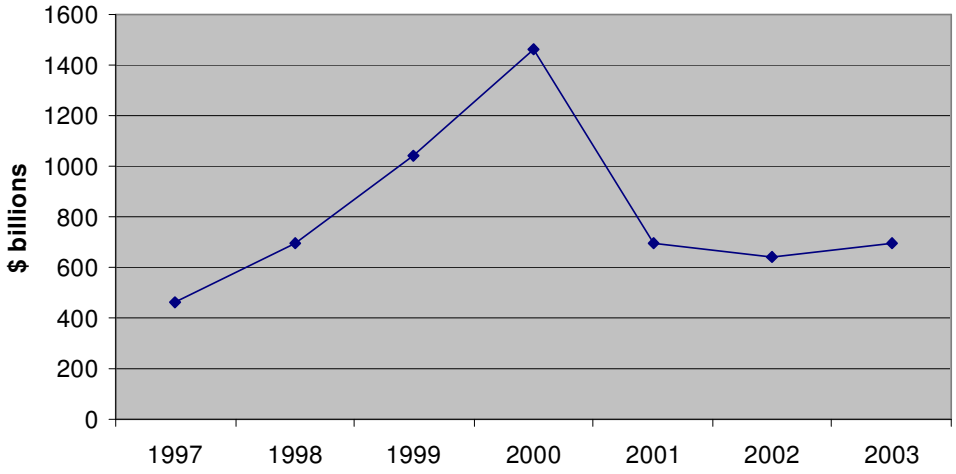

Figure 3. Global FDI flow trends, for the period 1997-2003

Source: World Bank (2005)

The decline of 2001 was the largest relative decline in three decades and has been attributed to a decline in the number and value of cross-border mergers and acquisitions experienced in the few years before that (OECD, 2001). In the year 2000, the $200 billion acquisition of Germany's Mannemann by UK's VodafoneAirTouch contributed significantly to the FDI flows in that year. The world economy slowed down the following year, 2001 and there were no significant cross border mega-deals, hence FDI flows plunged. The terror attacks in America in September of 2001 contributed in keeping investor confidence low leading to depressed FDI flows even towards 2002 (OECD,2001). FDI flows bottomed out in 2003 as a result of improvement in the global economy, recovering M & A

transactions and recovering investor confidence (UNCTAD, 2004). FDI flows are estimated to have continued growing in 2004 and 2005 (World Bank, 2005). A recent study on the perception of leaders of 335 TNCs, 158 countries' investment promotion agencies and expert international economics led to the conclusion that FDI flows are going to continue to grow in the medium term till 2007 (UNCTAD (2004b)). This is against the background of a positive world economic outlook with TNC focussing good profits to warrant international expansions.

2.4 FDI inflows to Africa & SSA

The global FDI flows boom during the period 1990-2000 saw FDI inflows to Europe grow by 5,200 %, South Asia had a 740 % growth while developing countries experienced an average growth of 672 % but FDI inflows to sub-Saharan Africa only grew by 59 % during the same period (Asiedu, 2002). In a study by De Marigny (2005) some experts in FDI did not think the low FDI inflows to SSA were a concern when viewed in comparison to the size of the GDP of the region. The slow increase in FDI inflows to SSA compared to the global increases of 1997-2000 resulted in a decrease in SSA's share of global FDI flows and a decrease in the ratio of FDI to GDP for the region (World Bank, 2004). Basu et al (2002) attributes the low FDI inflows to Africa and SSA to

- Perceptions of political and economic instability
- Weak governance
- Low per capita income
- Debt crisis
- Shortage of key skills

TNCs have consistently reported higher average returns from investments in Africa compared to investments in other regions (Asiedu, 2002). The paper quotes for example, average rates of return of 30 % for USA companies that invested in SSA during the period 1991-1996 compared to returns of 21 % in Asia and Pacific, 14 % for Latin America. The high rates of return from the continent may be due to the abundance of natural resources.

Asiedu (2002) reports that in spite of the high rates of returns, SSA attracts low FDI inflows as investors perceive Africa as being inherently risky with investors being uncertain of the stability of government policies. Lucrative FDI policies and high return on investments cannot make-up for political and risk factors. Kebonang (2005) says a reputation of efficiency and clean leadership can help Africa attract more FDI and it is envisaged that such a reputation will start to develop though such initiatives as the NEPAD peer review mechanism. The political climate in most African countries is already changing and will send more positive signals to foreign investors (Beraho, 1997). A survey by ATKearny (2005) found that even though the continent still struggles with high business costs, weak governance and poor growth, senior executives of TNCs were more optimistic about Africa's investment prospects than in previous years.

To date developing countries only receive about 20 % of global FDI inflows with the lowest proportion of these coming into sub-Saharan Africa. Table 3 below shows net FDI inflows to sub-Saharan Africa compared to other regions for the period 1999 – 2004.

Table 3. Net FDI inflows to developing countries,

Source: UNCTAD (2005)

Region	FDI inflows per year, in $ billions				
	1999	2000	2001	2002	2003
East Asia & Pacific	50	44	48	55	57
Europe & Central Asia	28	29	32	33	26
Latin America & Caribbean	88	77	70	45	37
Middle East & North Africa	3	2	6	3	2
South Asia	3	3	5	4	5
sub-Saharan Africa	9	6	14	8	9
Total FDI inflows to Developing Countries	*181*	*161*	*175*	*148*	*136*
Total Global FDI inflows	*1,040*	*1,460*	*700*	*640*	*700*

A country by country analysis of the FDI inflows to Africa (Table 4) confirms that foreign investment is concentrated towards oil and mineral resources rich countries with more than 70% of the FDI inflows in 2003 going to Nigeria, Angola, Equatorial Guinea, Sudan and Egypt (World Bank, 2004; UNCTAD, 2005).

Table 4. Africa: country distribution of FDI inflows by range, 2003 & 2004

	2003	2004
Range	Economy [a]	Economy [a]
More than $2.0 billion	Angola, Morocco and Nigeria	Nigeria and Angola
$1.0-1.9 billion	Equatorial Guinea and Sudan	Equatorial Guinea, Sudan and Egypt
$0.5-0.9 billion	South Africa, Chad, Algeria, Tunisia and United Republic of Tanzania	Democratic Republic of the Congo, Algeria, Morocco, Congo, Tunisia, South Africa and Ethiopia
$0.1-0.4 billion	Ethiopia, Botswana, Mozambique, Congo, Egypt, Mauritania, Uganda, Gabon, Zambia, Côte d'Ivoire, Democratic Republic of the Congo, Namibia, Libyan Arab Jamahiriya, Ghana and Mali	Chad, United Republic of Tanzania, Côte d' Ivoire, Zambia, Gabon, Mauritania, Namibia, Uganda, Mali, Ghana, Mozambique, Libyan Arab Jamahiriya and Guinea
Less than $0.1 billion	Kenya, Guinea, Mauritius, Seychelles, Senegal, Benin, Lesotho, Togo, Zimbabwe, Burkina Faso, Gambia, Eritrea, Cape Verde, Madagascar, Niger, Djibouti, Malawi, Sao Tome and Principe, Rwanda, Guinea-Bissau, Central African Republic, Sierra Leone, Liberia, Comoros, Cameroon, Somalia, Burundi and Swaziland	Senegal, Swaziland, Mauritius, Benin, Gambia, Togo, Seychelles, Zimbabwe, Sao Tome and Principe, Lesotho, Botswana, Kenya, Madagascar, Burkina Faso, Djibouti, Eritrea, Cape Verde, Liberia, Niger, Malawi, Rwanda, Somalia, Guinea-Bissau, Sierra Leone, Burundi, Comoros, Cameroon and Central African Republic

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Listed in order of the magnitude of FDI inflows for each respective year.

Even though the high returns of oil and minerals have been the main drivers for attracting FDI, Basu and Srinivasan (2002) in investigating foreign investment to non-mineral and non- oil rich countries in Africa, concluded that sustained efforts to promote political and macroeconomic stability coupled with structural reforms and specific investment incentives account for some countries, like Mauritius, attracting significant amounts of FDI in spite of having no oil or minerals.

2.5 FDI inflows to Swaziland

In the 1980s and early 1990s, Swaziland was regarded as one of the highest receivers of FDI flows in Africa (Loots, 2002b). This was largely due to the location advantage it had, together with Lesotho, of being closest to South Africa and Mozambique (Basu et el, 2002). When economic sanctions were imposed on South Africa, one of the largest markets in SADC, Swaziland together with Lesotho, became good alternative host countries for TNCs who wanted to access the South African market. Following the political change in South Africa and its re-integration to world trade, FDI in Swaziland declined with some TNCs relocating back to South Africa hence Swaziland's economy slowed down from an all high peak of 6.9% GDP annual growth during the decade of 1984-1994 to 2.6% in 1994-2004 (World Bank, 2005).

In the last five years Swaziland's position on share FDI inflows to Africa has deteriorated to one of the countries with the smallest share of FDI (Table 4). Most of the foreign investment in Swaziland is from South African companies with a small portion from oversees investors. Statistics from the Central Bank of Swaziland only give total FDI stocks in the country. Trends in net FDI inflows from this data is best analysed from relative (%) change in FDI stocks.

Table 5. Total FDI stocks in Swaziland, 1999-2004

Source: Central Bank of Swaziland (2004/5).

Total FDI stocks into Swaziland; by type, 1999-2004 in E' (=South African Rand) Millions						
	1999	2000	2001	2002	2003	2004
Equity	657.4	510.2	837.4	737.9	709.4	678.7
Reinvested Earnings	1,515.3	1,962.6	1,960.8	2,711.2	2,517.2	2,753.6
Long Term Capital	643.6	693.4	850.1	582.9	703.1	828.1
Short Term Capital	606.7	891.0	653.5	1215.6	857.5	963.3
Total FDI stock	3,423.0	4,057.2	4,301.8	5,247.6	4,787.2	5,223.7
Change in FDI (%)	21.3	18.5	6.0	22.0	-8.8	9.1
Change excluding Reinvested Earnings	25.7	9.8	0.8	8.3	-10.5	8.8

Except for the year 2003, Table 5 shows that the percentage changes in FDI are similar to those of FDI growth into SSA (Table 3), which implies that Swaziland's share of FDI in the SSA FDI flows has remained relatively stable in these last few years.

A high portion of the FDI inflow came from reinvestments relative to green-field investments. In spite of the relatively low economic growth, investors have continued to re-invest their earnings in the country and this has been the largest contributor of FDI inflows during the last years (Swaziland Government, 2004). Most of the □reenfield investments were in the textile manufacturing sector which is probably as a result of Swaziland's AGOA agreement with the USA that allows for tariff free imports of Swaziland's textile products into America (Dlamini, 2006).

2.6 Swaziland as a potential FDI host

The World Economic Forum offers data on the economic competitiveness of countries. Unfortunately, Swaziland is not one of the countries included in their study. The annual ATKearney Foreign Direct Investment Confidence Index also profiles countries in terms of TNCs confidence but Swaziland has never been included in their surveys. Comparative data in therefore very scarce and in as much as possible available data will be used to compare Swaziland to other SADC or African countries on some of the FDI indicators that the World Economic Forum uses.

2.6.1 Investors' access to local, regional and overseas markets

In his analysis of the African markets, Beraho (1997) assesses the SSA countries on market size and growth using the BCG matrix.

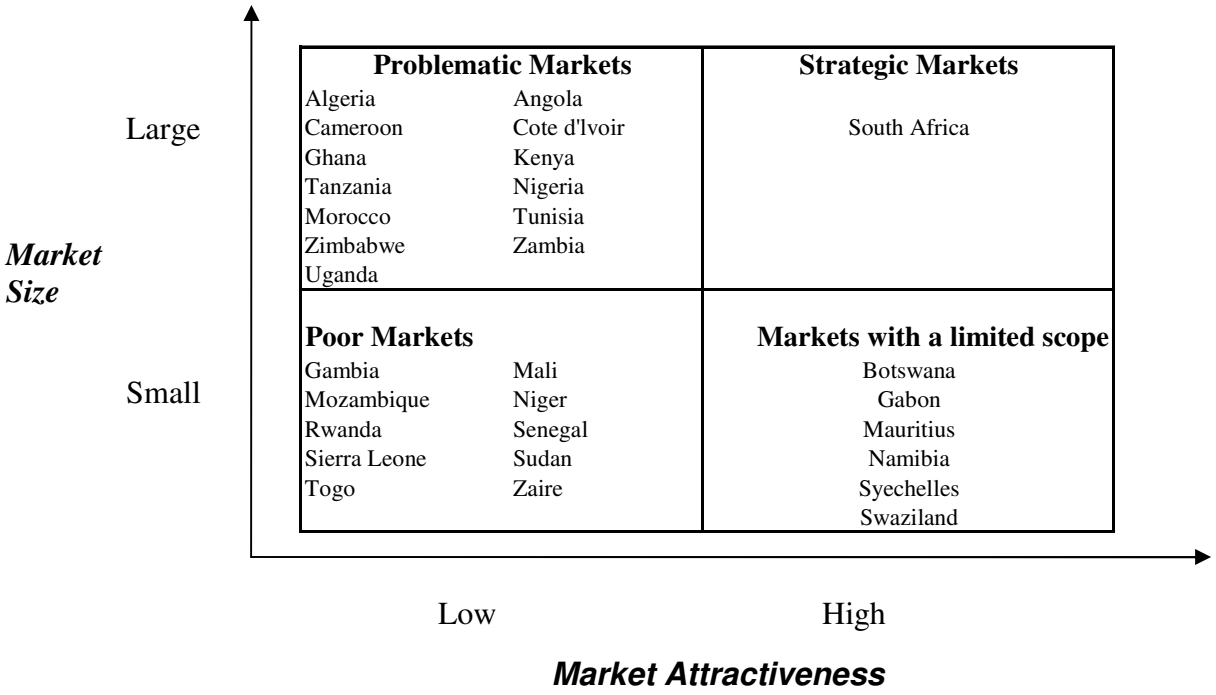

Figure 4. BCG Matrix for market classification of some African economies

Source: Beraho (1997)

The positioning of Swaziland on the 'markets with limited scope' due to its small size limits the country to attracting mainly export-oriented foreign investment.

When taking the view that the business of TNCs is to make profits, the target market size as well as rate of return on investment should be important criteria for analysing the competitive position of a potential host country for foreign investment. Most of the economies of SSA are small by comparison to those of the other region and this posses a disadvantage with respect to attracting big TNCs. To overcome this, the economies of the region have entered into regional co-operations that promote the continent as one open market with an integrated infrastructure (Baloro et al 2003). "The drive for regional economic integration resulted in the establishment of organisations now commonly known as SADC and COMESA" (Baloro et al 2003). As an integrated economy, countries in the region

therefore provide FDI investors an opportunity to tap into a relatively big market. Even though SSA economic growth rates are still below those of Asia, they are above average world averages (Figure 2). The attractiveness of the integrated African market is therefore not just limited to its size, but its potential growth as well.

Swaziland is a member of most of the African bloc markets including SACU, SADC and the Common Market for Eastern and Southern Africa (COMESA). In addition to these African markets, as a member of the EU-ACP group it offers an export base to the European Union duty free. Together with other African countries, the AGOA agreement also offers Swaziland investors an entry to some American markets (including the textile market) without the payment of tariffs.

2.6.2 Swaziland's Infrastructure Development

During the economic boom of 1984-1994, the country developed its road and rail infrastructure especially its linkages to South Africa as Mozambique was in civil war during the same period.

Swaziland imports 80% of its electricity requirement from neighbouring South Africa and the electricity infrastructure is integrated to that of the South African Power Pool. This would suggest that the cost of electricity would be higher in the country than in South Africa.

The World Economic Forum African Competitiveness Report (2005) found Sub-Saharan Africa to have the lowest basic infrastructure (measured on the availability and reliability of the water, telephone and electricity supplies) among the regional world economies. It was not possible to obtain data on the availability of electricity, telephone lines and mobile lines per capita to compare it to that of the other SADC countries studied in the African Competitiveness Report. The report also uses tarred roads (kilometres) per 1000 square kilometres land to measure

the level of road development in a country. In the absence of this data it is not easy to compare the country's infrastructure development to that of its neighbours.

2.6.3 Swaziland's Human Development Index (HDI)

Human development is measured on an income per capita index, life expectancy, level of the nationals education as indicated by school enrolment rates rate and literacy and the quality of life of the citizens as estimated from access to improved water supply. The country's development diamond, in comparison to the lower-middle-income countries average, is shown in Figure 5 below

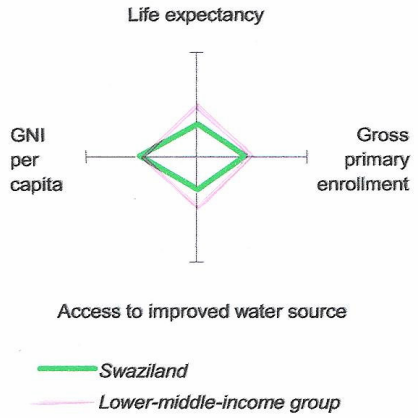

Figure 5. A Comparative position of Swaziland's HDI
Source: World bank, 2005b

Swaziland boasts of a higher than average GNI per capita to that of the SADC countries though the income is highly inequitable with a GINI coefficient of 0.609 in 2004 (World Bank, 2005b). The literacy level of Swazi citizens is one of the highest in the SADC region. Swaziland's human development index is negatively affected by the low life expectancy of the country which at 32½ years is the lowest in the world (UNDP, 2005). The life expectancy can only be improved by addressing the HIV/AIDS pandemic whose infection rates in that country are the highest in the world with an estimated 40% of the adult population said to be already infected. The low life expectancy and high HIV/AIDS infection rates would be a deterrent to foreign investors as it increases the cost of labour.

2.6.4 Swaziland's Political Climate

After independence from the British government in 1968, the Monarch issued a decree in 1973 banning political parties in Swaziland. Since then, the country's Executive is appointed by the head of the country, His Majesty King Mswati III. Even though a new constitution was adopted in 2005, political parties remained banned in Swaziland. Swaziland has three arms of government:

The Legislative

The Swaziland Parliament is made up of the 65 members from house of assembly and 30 members from the house of Senate. The people elect 55 members of the House of Assembly and the Monarch appoints the additional 10 members. Once the House of Assembly has been constituted, its first business is to appoint 10 members from the public to serve in the House of Senate and the Monarch appoints the remaining 20 members. Of the 95 members of parliament, the Monarch therefore directly appoints a total of 30 members.

The Executive

Once Parliament has been constituted, the Monarch appoints the Prime Minister and 12 cabinet ministers as the Executive arm of government.

The Judiciary

The judiciary in the country is a dual system which is made up of the civil courts of law and the traditional courts.

Though the three arms of government have remained independent and the political climate of Swaziland said to be peaceful, there was a 2001 pronouncement by the government (through the executive) declaring that government was not going to respect a ruling given by the highest court of law, the Appeal Court, on a matter against government. This led to widespread negative

international publicity on the country's respect of the rule of law (Central Bank of Swaziland, 2004/5).

Critiques have viewed the continued ban on political multi-parties in Swaziland as a sign of absence of democracy in the country with most powers vested on the Monarch. The continued outcry from organisations within the country for the unbanning of multi-parties may give the perception of political instability in Swaziland.

2.6.5 Swaziland's Macroeconomic Indicators

The country's decline in economic growth has already been alluded to. The Swaziland currency (Lilangeni) is linked to the South African Rand and has been relatively stable in the last five years. The Central Bank of Swaziland follows inflation targeting policies and has managed to keep the inflation rates stable around 5-7% in the last few years. The budget deficit remains stable at about 2% of GDP though the current account balance fluctuates, going down to -5% of GDP in 2005.

The comparative position of some macroeconomic indicators for Swaziland to other low-middle-income countries can be seen from the economic ratios' diamond below

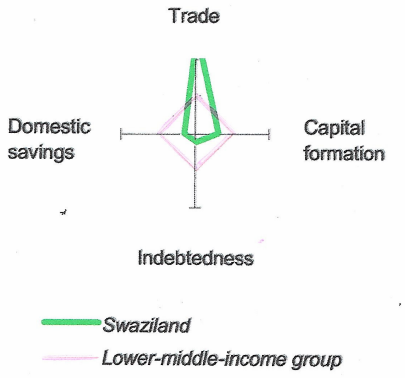

Fig. 6 A Comparative position of Swaziland's Economic Ratios, Source: World bank, 2005b

The country's stable currency and inflation as well as its openness to trade are expected to favour foreign investment. Metwally (2004) proposes that there is a feedback relationship between FDI inflows and the economic growth of a host country. Economies with high growth rates attract more FDI and on the other hand FDI contributes to economic growth. The slowing down of the Swaziland economy may be attributed to declines in new FDI yet at the same time the dwindling economic growth negatively affects FDI inflows.

CHAPTER 3
LITERATURE REVIEW

3.1 Introduction

Literature on why TNCs engage in FDI is rich. Research on determinants of FDI for different countries has been carried out including a comparative study for the importance weighting for Northern Ireland and Bahrain (Gilmore et. Al., 2003), a study for Turkey (Coskun, 2001), one for Bulgaria (Betzenis, 2003), sub-Saharan Africa (Asiedu, 2001; Mwangi, 1995), South Africa (Chipfupa, 1999), Zimbabwe (De Marigny, 2005) to name but a few.

This chapter begins by looking at the three theories of FDI, which are based on the well known international trade theories. Then the determinants of FDI found in the literature are explored. When looking at the theories and factors that affect FDI decisions, it is important to take into consideration that there are three types of foreign direct investors (Loots, 2000a).

Marketing Seeking Investors

Due to the saturation of the local market or increasing competition from rivalry firms, a firm may wish to expand the size of the market by exporting, licensing or even setting a base for production in the foreign market. Exporting to the foreign market might attract higher transport costs as well as export tariffs. Foreign direct investment may lower these costs for the market seeking firm and would therefore be a better alternative to exporting or licensing. A local physical presence in the target market might also be strategic from the point of view of increasing brand awareness and loyalty. The strategy for market seeking investors is therefore to produce goods in a host country to serve the local market.

Export-oriented investors

A firm may find it more financially beneficial to set up production in a foreign country, not just for the local host market, but for exporting to other third countries.

The main motive for foreign investment in this case is to lower the costs of the factors of production by being located next to cheaper resources.

Efficiency seeking investors

The strategy for efficiency seeking investors will be a 'cost leader strategy' for both the local and export market. Gains in operation efficiency maybe made from closer location to raw materials, closer proximity to the markets or closer proximity to supporting and/or related industries.

The importance weighting of factors will therefore tend to differ depending on the motive of foreign investment. Different countries have different location specific economic advantages that they offer as well as inherent economic and political risks. The importance ratings of the determinants will therefore also vary within countries.

Asiedu (2001) summarised key findings of research on determinants of FDI and their effect on FDI inflows; the different correlation researches show that a determinant may have different (or even opposite) effects on FDI inflows. The author attributes this inconsistency to the types of investors sampled in the different studies (Asiedu, 2001).

After reviewing the theories of FDI, the chapter will summarise potential benefits of FDI to the host country and concludes by summarising research findings on FDI determinants with a special focus to SSA or developing countries.

3.2 Theories on motivations of FDI

Betzenis (2003) says the theories of FDI are derived from TNC following one of the "nine routes" of maximising profits shown in the model below

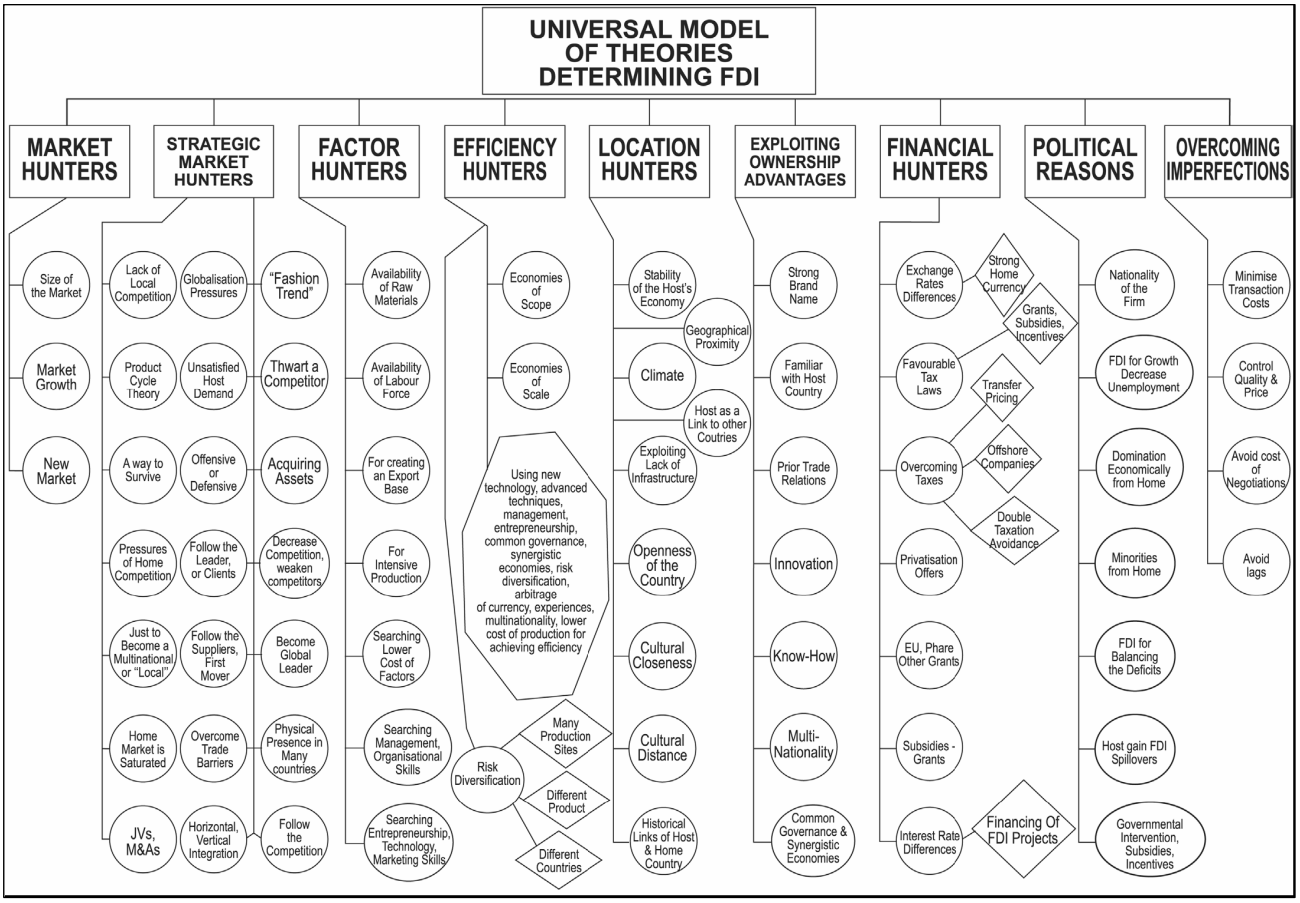

Figure 7. The Universal Model theory,
Nine routes for maximising profits using
Source: Betzenis (2003)

Currently there are three classical theories of FDI. In his doctoral research based on the survey and analysis of FDI theories, Elhassan (1992) criticises these theories as being simply based on the firms' point of view yet he proposes that foreign investment is a supply–demand phenomenon. The potential host countries are the demanders, the TNCs are the suppliers of FDI and both parties are looking

to maximise their net benefits. A comprehensive theory would therefore be one that looks at both sides of the supply and demand of FDI.

The three theories of FDI are actually based on the more traditional international trade theories Morgan (1997). A comparison of the themes of the three FDI theory and the themes of the international trade theories is given in Table 6 below.

Table 6. A summary of International Trade Theories and FDI theories, Source: Morgan (1997)

Theory Type	***Theoretical Emphasis***
International Trade Theories	
Classical Trade Theory	Countries gain if each devotes resources to the production of goods and services it has an advantage.
Factors Proportion Theory (or Theory of the factor of endowment)	Countries will tend to specialise in the production of goods and services that utilise their most abundant resources.
Product Life Cycle Theory	New products and product innovation takes place in industrialised countries, foreign production becomes competitive in foreign markets as product matures and production is best carried out in the country with lowest production costs at the decline stage of the product.
Foreign Direct Investment Theories	
Market Imperfections Theory	The firm's decision to invest in a foreign market is based on certain capabilities not shared by competitors in foreign markets.
International Production Theory	Foreign production is initiated depending on the specific attractions of a firm's home country compared with resources implication and advantages of locating in a foreign country.

Internalization Theory	A firm may extend the operations that link the firm to customers by bringing these under common ownership and control. This extension of operations is aimed at lowering the costs of product reaching the customer.

The three theories of FDI are briefly described in the following paragraphs.

3.2.1 International Production Theory (Morgan, 1997)

This theory is based on the "product life cycle theory" of international trade. Its basis is that new products and product innovation are likely to take place in the industrialised countries where there is likely to be research and development capabilities. Initially a firm profits from being a first mover in the product launch but as the product moves to maturity, competitors may have copied the technology and begin to saturate the market. The theory then suggests that the firm in wanting to increase and protect new markets, undertakes FDI to produce closer to foreign markets to lower export costs and strengthen market share in the foreign market through visibility. As the product moves to the decline stage, pricing becomes more important and the firm will relocate to a country where production costs are lowest. The production costs may be lowest in the foreign country due to cheaper labour or close proximity to abundant resources which lowers the costs of the factors of production.

3.2.2 Internalization theory

The internalization theory is founded on transaction cost economics and supposes that FDI is initiated by a firm trying to be more competitive by locating near the market if other transaction costs of reaching the market are higher (Galan, 2001). It is best summarised as

- The firm has ownership advantages and capabilities which could be specialised knowledge, technology or patent protection.
- The firm can benefit more by combining these advantages with a certain foreign location and
- These advantages are best exploited by the firm itself rather than sold (Mwangi, 1995).

If a firm was accessing foreign markets through exports or licensing "and considers that the greater the presence of factors facilitating opportunistic behaviour on the part of trade partners, the higher transaction costs incurred to protect against such opportunism. Thus, the company would incline towards internationalization forms which involve a high degree of control, that is, it would prefer internalizing international activities through FDI rather than exporting or licensing" (page 270 of Galan, 2001).

3.2.3 Market Imperfections Theory

When a firm has developed certain firm specific advantages and capabilities of developing a unique product, it may due to market imperfections need to set up production of the product in a foreign market. One form of market imperfection is economies of scale where costs do not rise in direct proportion to output thus enabling a firm to produce goods at a lower cost per unit of output. Foreign location may be a way that a firm may obtain these economies of scale. Another market imperfection may be trade barriers and the most cost effective way for a firm to overcome these may be by producing in the foreign market.

The three theories focus on one aspect of FDI-the need for TNCs to lower costs of production but ignore important aspects like country risks and the need for TNCs to reduce their exposure to such risks. It is actually possible that TNCs may set up production in a foreign country not to lower the costs of the factors of production but rather to diversify country specific risks e.g. operating in different countries

means revenue will come in different currencies so currency risks will be lowered by FDI. The theories do not take into account potential host country's efforts for attracting FDI. The factors of productions may not be directly lower in one country but because of incentives offered to foreigners, it may prove beneficial to a TNC to set up production in the foreign country. Elhassan (1992) says these theories focus on the supply side of FDI (i.e. look at FDI from the TNCs side) and do not incorporate the demand side of FDI

The theory behind a TNC undertaking FDI is not static as "the opportunities that each country offers change with time as economic, technological and political factors change and TNCs will always channel FDI as to minimise risk and maximise profits" Betzenis (2003). Hence in characterising a TNC's foreign investment, the theory explaining the FDI may change with time between any (or a hybrid) of the above three theories.

3.3 Potential benefits of FDI to a host country

Though they maybe an argument on the causality link between FDI and economic growth, there is a general consensus in the literature that there is a positive relationship between FDI inflows and the economic growth of a host country (Kim et.al. 2003). A statistical model on time series data of FDI and economic growth of Egypt, Jordan and Oman showed that there is actually a feedback relationship between capital inflows and economic growth (Metwally, 2004).

> *"Direct private investment does not only affect economic growth but is also affected by it. Economies that enjoy relatively higher rates of growth succeed in attracting foreign investment. On the other hand, foreign investment contributes to the acceleration of economic growth", page 383*

For developing countries capital markets are limited, official loans from multilateral organisations are declining (Asiedu, 2001) and therefore FDI serves as an important engine for catalysing economic growth as it brings an expansion of

capital stocks to the host country (Asiedu, 2001; Olomula, 2004; Woodward, 2001). Metwally (2004) identifies four reasons why FDI significantly contributes to economic growth in developing countries and these are

- "Capital inflows at substantial rates will reduce the need for borrowing. This will reduce the debt-service ratio, which can be a real drain on heavily indebted countries. A high debt-service ratio deprives the economy of the direct and indirect benefits of a large percentage of exports. This reduces the ability of its economy to grow and increases its dependence on foreign debt. Thus, by reducing the debt-service ratio, foreign investment contributes indirectly to economic growth.
- Direct foreign investment is usually accompanied by know-how, up-to-date technology and managerial skills that are essential for economic growth but lacked by most developing countries.
- Direct foreign investment usually assists in the expansion and creation of new markets. This enhances the country's ability to export and contribute to economic growth.
- By expanding the export revenue, capital inflow plays a major role in alleviating debt-service problems, the need to borrow is reduced and the growth is accelerated if direct foreign investment flows at substantial rates". Page 385

Wooward (2001) attributes the positive impact of FDI to the economic growth of a host country to the fact that most FDI is directed at the private sector which normally engages in financially/economically more viable projects than the public sector. The capital injection from FDI is therefore usually channelled to developmental, sustainable or profitable ventures as opposed to capital from official debt going to the public sector where the money may be used for non-profitable ventures if not merely consumption. Capital inflow via official external debt (to the public or private sector) requires servicing therefore puts negative pressure on the country's foreign reserves or debt-service ratio. On the other hand FDI out streams are only in the form of dividend payments, repatriation of profits or

management fees and most of these only occur once the venture has been successful thus do not put as much pressure on the country's foreign reserves (Woodward, 2001).

Human capital development is important for sustainable economic growth of developing countries. Jones et al (2000) and Abduallah (1994) found in their research that TNCs invested more in training and human resource development than local companies. This is probably due to the need for technology and managerial skills transfer when TNCs move to a foreign country. Choi (2004) says that human capital development and knowledge spill over, can lead to reduced labour mobility between the developed and developing countries. In a study of 16 source countries and 57 host countries of FDI inflows over a 25 year period, Choi (2004) found that there was a convergence of per capita income between the source and host country, and he attributes the accelerated economic growth of the host country to human development.

3.4 The host country's concerns about FDI

Makola (2003) warns that as much as FDI has all the above potential benefits, every country must always be careful not to promote foreign investment at the cost of local investment. As a consequence of increasing globalisation and technology development, all capital should be viewed as footloose and a country has to balance foreign investment incentives with those of local investors. Since foreign firms may have higher operational efficiencies than local firms due to economies of scale and access to cheaper financial capital, governments should ensure that the sources of production are not monopolised by foreign investors.

In investigating the concern of FDI "crowding out" local investment in Korea, Kim (2003) found that there was actually a complementary relationship between FDI and domestic investment i.e. higher domestic investment was associated with a higher level FDI inflow during the period before the Asian financial crisis. The benefits of FDI to local companies can be enhanced by promoting supply linkages between TNCs and domestic firms, as opposed to a high dependency on supplies through imports (OECD, 2001).

In a bid to attract foreign investment, a country may offer incentives that include flexible profit repatriation laws, tax holidays and tariff exemption on imports to be used in the manufacturing. With the increase in competition for foreign investment, the use of incentives may lead to a 'zero sum game' with countries (especially in a region) racing to the bottom of the FDI benefits. While it is important for countries to formulate policies that will make their countries more competitive for attracting FDI inflows, they should try to ensure that the foreign investments remain beneficial to the country (Wint et al, 2002). Some countries tie up the FDI incentives with performance requirements such as local employment quotas, local content in production and requirement for partnerships with local companies as a way of minimising potential negative effects of FDI (UNCTAD, 2003).

3.5 Determinants of FDI

It is clear that FDI is a supply-demand phenomenon with the TNCs wanting to lower the costs of production but minimising foreign country risks, while the potential host countries create policies that attract (but at the same time still allows for beneficial) FDI. Countries, particularly developing countries, realise the economic benefits of FDI and hence the demand side seem to be higher than the supply side of FDI. Determinants of FDI therefore are from the TNCs and financiers viewpoint.

The literature on the correlation of FDI inflows and determinants of FDI was summarised by Asiedu (2001) and show that the effect of a single variable on FDI may change depending on the nature of motive of investment i.e. market seeking, efficiency seeking or export oriented. The next section will discuss the effect of some determinants on FDI and their importance rating to investors, where possible.

3.5.1 Return on investment

FDI will go to countries that have a potential to pay higher rates of return on capital, ceteris paribus (Asiedu, 2001). Due to the lack of vibrant stock exchange activities, data on returns on capital in SSA is not easily available. For export oriented investments, the literature uses the inverse of a country's GDP as a proxy for rates of return on capital (Asiedu, 2001). This is a very crude method and it tends to inflate rates of returns for investments in small economies (World Bank, 2001). For the period 1990-1993, average real returns on US FDI in developing countries averaged 17% compared to 10% returns in developed countries (UNCTAD,1999).

Empirical analysis of rates of return on investment in SSA countries was found to have a significant positive influence on FDI inflows (Razafimahefa et. Al., 2005). A comparison of FDI inflows to non-SSA countries and SSA countries shows that higher return on investment promotes FDI inflows to non-SSA but has no

significant impact on SSA FDI inflows though the fact that a large portion of FDI inflows to Africa were directed at politically risky countries like Angola was attributed to the investor expecting high returns even after adjusting for the political risk (Asiedu, 2001). Though rates of return on investment are positively correlated with FDI inflows, the investment decision takes into account political and economic risk. The importance rating of returns is therefore investor and country specific.

3.5.2 Physical Infrastructure Development

A measure of infrastructure development should take into account both the availability and reliability of the physical infrastructure which includes telecommunication, electricity, running water and transport infrastructure (Asiedu, 2001).Good infrastructure increases productivity and efficiency hence it is expected to be positively correlated to FDI inflows, ceteris paribus.

In her study (Asiedu, 2001) found that infrastructure development promotes FDI flows to non-SSA countries but had no significant impact to SSA FDI. She attributes this to the fact that a large share of the FDI to SSA was directed at natural resources, mining and/or extraction and such industries are located in remote areas. In his study of FDI inflows into the manufacturing sector of South Africa, Chipfupa (1999) found that TNCs ranked infrastructure development as an important positively correlated determinant for new FDI inflows. USA TNCs also ranked infrastructure development as a dominant factor in determining the location of FDI in the developing world (Wheeler and Mody (1992); Agodo (1980) cited in Chipfupa (1999).

3.5.3 Human Capital Development

The literature measures a country's human capital development by taking into account the population growth, health and average life expectancy of the people and their level of education (Mohr, 2004). "The development of a country's human potential is unquestionably the single most important determinant of the pace of economic development" (Mohr, 2004). It is also expected to positively influence

FDI flows since FDI normally requires technological and managerial skill transfer and this would be made easier if the host country's human capital is advanced.

Naude et al (2003) in their analysis of FDI to developing countries attribute the phenomenal success of East Asian countries in attracting FDI to their significantly higher tertiary education enrolment rate and the authors conclude that "(the lack) of human resource may be an important condition to explain the lack of FDI info Africa."

3.5.4 Openness of the host country's economy

The openness of an economy is measured by the ratio of imports and exports to the GDP. The same ratios are often interpreted as a measure of trade restrictions, the opposite of openness. For market seeking investors, trade restrictions are expected to have a positive impact on FDI inflows as the investor was motivated by "tariff jumping" to serve the local host market. Trade restriction therefore allows the foreign investor to access the domestic market at favourable returns than the country's importers. Contrary though, export seeking FDI will be in favour of openness as trade restrictions normally result in high transaction costs due to the market imperfections that arise from trade restrictions. In addition, the open economy is not handicapped by the size of the domestic market and hence it attracts FDI as it allows for trade with world economies.

In the study of FDI flows to Turkey, Coskun (2001) found that investors placed trade openness as the 2nd most important determinant that influenced them to invest in Turkey (Coskun, 2001). Foreign investors to the manufacturing sector of South Africa ranked the access to SADC markets as the 9th most important factor of the 20 factors that influenced them to invest in South Africa (Chipfupa,1999).

3.5.5 FDI incentives

Government incentives to attract FDI may include duty free imports of production inputs, tax holidays, lower corporate tax, tax rebates for training local personnel, flexible repatriation exchange policies for profits and dividends as well as low-cost production facilities. FDI incentives are therefore expected to positively influence FDI inflows.

Of the 22 determinants studied by Gilmore et al (2003) on FDI to Northern Ireland and Bahrain, financial FDI incentives were ranked as the 3rd and 20th , respectively, most important factor that influenced investors on the choice of host country. The difference may be due to that for Bahrain investments, foreign investors are legally required to have a local partner so the value of FDI incentive is relatively low as it is accrued only to the foreign portion of the investment (Gilmore, 2003). For foreign investors to Turkey, investment incentives were ranked as the 9th most important factor of the 14 factors that were considered for FDI. South African companies that invest in other SSA and sub-Equatorial companies view the investment incentives by the host country as a very important determinant to consider (Arnold, 1998; Mwangi, 1995) while those investors that have invested in the manufacturing sector of South Africa ranked it the 6th most important determinant to consider of the 14 determinants under study (Chipfupa, 1999).

3.5.6 Respect of the Rule of Law

Rule of law broadly refers to the independence of the judiciary in dealing with legal matters involving TNCs and the host citizens. For example, in their paper on FDI in Russia, Jones et al (2000) refers to it as 'the proactive corporate governance without government interference'. Haley (2000) perceives a lack of the rule of law when a government takes no stance in helping TNCs protect property rights because the government would also like to see the technological knowledge develop in the hands of her citizens or domestic companies. Both papers argue that the government's respect of the rule of law can increase FDI inflows to a host country.

3.5.7 Political Stability

The political stability of a country is a subjective determinant based on the perceived probability of having a change of government and from the level of political violence which maybe in the form of political assassinations, politically motivated riots and strikes (Asiedu, 2001). Political instability increases the risk for investors as it brings about uncertainty on whether government policies will change or not. The risk of policy reversal is costly to FDI as the nature of the investment is usually such that if disinvestment becomes necessary most of the investment costs will be sunk. Political stability is therefore expected to have a positive correlation with FDI inflows.

The fact that Mozambique and Angola continued to attract high FDI inflows during periods of conflict and that Nigeria attracts high FDI inflows in spite of its high risk rating in the International Country Risk Guide, only shows that investors in natural and oil production sectors project high returns in these fields to justify the risk (Loots, 2000b). Indeed the positive impact of political stability on FDI is evident from the fact that post the conflicts, Mozambique has attracted even higher levels of FDI flows (Loots, 2000b).

The political violence in Bahrain received much publicity and out of 22 determinants, foreign investors ranked the political stability of that country as the 4^{th} most important determinant that they considered before investing in Bahrain (Gilmore, 2003). In considering investment to SSA and sub-Equatorial African countries, South African investors ranked political stability as the most important factor in determining location (Arnold, 1998; Mwangi, 1995). Those TNCs located in South Africa ranked political stability as the 5^{th} important determinant (out of 20) that they had considered when looking at FDI into the country.

3.5.8 Economic Stability

The stability of an economy is determined from both the variance of the consumer price index (CPI) and the volatility of the local currency exchange rate. Stable inflation rates as indicated by low variances in the CPI means that firms can project more reliable financial forecasts which helps them with long term business decisions. Achieving stability of the currency exchange rate involves a trade off between the volatility and price competitiveness of the currency as maintaining nominal currency rates might lead to loss of price competitiveness. Income stream from a highly volatile currency area is in the long run associated with high exchange risk. "In short term (normally portfolio) investments it is possible to lower the exchange risk by hedging through the derivative markets but such risk protection is impossible in long term investments like FDI" Razafimahefa (2005, page 3). It is therefore expected that economic stability will attract FDI inflows.

Economic stability, as indicated by low changes in inflation rates, ranked as the 9th and 14th in the importance rating of 22 determinants of FDI to Bahrain and Northern Ireland, respectively (Gilmore, 2003). In considering investment to SSA and sub-Equatorial countries, South African business leaders ranked economic stability as the 2nd most important determinant (after political stability) that they consider when undertaking FDI.

3.5.9 Flexibility of Labour Market

Labour market flexibility refers to the ease with which firm can legally 'hire and fire' or change employees' working conditions e.g. working hours, job description and wages. "Theoretically, labour market regulations are often viewed as cost factors reducing the profitability of investments and leading to relocations to less regulated countries." In explaining the UK's success in attracting high FDI inflows, Floyd (2003) says flexible UK labour market has made it more attractive for foreign investor as the law allows for working a variety of hours, adjustment of wage prices and there is limited union power compared to other countries in the region. Pull (2002) argues that based on the product life cycle theory, firms wanting to produce high quality product may actually be attracted to the 'expensive' highly regulated

labour law country as this expensiveness might come with high productivity and quality. His comparative study of FDI into the 'restrictive' Germany and the 'flexible' England labour markets actually show that the different labour markets will attract different types of investors.

3.5.10 Local Market Size & Potential Growth

The size of the local market is measured by the host country's GDP while the real GDP growth is used as a proxy for the market's potential growth. It is expected that local market size will be positively correlated with market seeking FDIs flows and will be a very important factor for such investors. A larger domestic market to serve would bring in higher returns on investment through higher utilization of assets and the exploitation of economies of scale. For export-oriented investments, market size is expected to have an insignificant effect on FDI inflows and so should be a relatively unimportant factor when considering FDI location.

An empirical analysis of FDI inflows to Africa and Asia show that for African countries, rates of return on investment had a stronger influence on FDI flows compared to market size, which influenced Asian FDI flows (Ramazafimahefa, 2005). This is attributed to the difference in the types of investors undertaking FDI into the two regions. The promising performance of the Turkish economy and its growing market size was found to be the most influential factors for investors coming into Turkey (Coskun, 2001). The surveys by Chipfupa (1999), Arnold (1998) and Mwangi (1995) all show that market size is a very important determinant for South African businesses investing into other African markets and TNCs investing in South Africa.

3.5.11 Tax Structure

In a study 48 FDIs in Bahrain Gimore et al (2003) found that the tax structure of the country was the most important factor that attracted investors to that country. A country may view the other benefits of FDI like employment of locals more important than the income from foreign investors' corporate tax. Low taxation and

other favourable tax structures for foreign investors is expected to attract inward FDI.

3.6 Conclusion of literature review

The literature review shows that the importance rating of FDI determinants (factors) are influenced by the motive of foreign investment to the specific country under consideration. Each country offers certain unique location advantages and is likely to attract similarly motivated investors. There can be a policy mis-alignment if a government does not know the determinants that are important to the majority of its foreign investors. As the competition for foreign investment increases, countries are launching FDI incentives that will make them more competitive. If a country knows the current satisfaction ratings of FDI determinants, it can focus on improving some of these determinants (Gilmore et al, 2003).

In most of the literature the determinants are classified into "very important", "important" and "not important" categories following the importance rating by investors. Gilmore et al (2003) also uses three categories in the relative ranking the determinants' satisfaction rating and these are "very satisfactory", "satisfactory" and "not satisfactory."

From the literature, the following twelve factors for FDI were identified and their importance rating as well as investors' satisfaction levels of them will be studied.

Determinant 1: Physical infrastructure development

Literature: A measure of physical infrastructure development takes into account both the availability and reliability of the physical infrastructure which includes telecommunication, electricity, running water and transport infrastructure (Asiedu, 2001). The World Economic Forum collects data on availability of electricity, telephone lines and mobile lines per 1000 people as well as amount of tarred roads (km) per area of country land (km^2) to compare the competitive position of countries.

Physical infrastructure development was found to range from being non-significantly to being positively correlated to FDI inflows (Asiedu, 2001). South African investors to SSA and Sub-Equatorial countries ranked infrastructure development as an "important" determinant when considering FDI to these countries (Chipfupa (1999), Mwangi (1995), Arnold (1998). Data measuring Swaziland's physical infrastructure development could not be obtained except to say in general that the country is expected to have good infrastructure development from the economic boom of the 1980s to early 1990 (SIPA, 2005).

Determinant 2: Human Capital development

Literature: A country's level of human resource development is measured by its human development index, HDI. The human development index takes into account the income level of the people, their level of education, life expectancy and their quality of life. High levels of human resource development attract FDI inflows (Naude et al, 2003). The World Bank ranks Swaziland's human development index as the 147th of 177 countries. Literacy levels in the country are very high but life expectancy is the lowest in the world.

Determinant 3: Trade openness of the economy.

Literature: The openness of an economy is measured by the ratio of imports and exports to the GDP. An economy's openness will attract export oriented FDI (Asiedu, 2001). Investors to Turkey ranked openness as a very important determinant (Coskun, 2001) while investors to South Africa ranked it as important (Chipfupa, 1999). Swaziland's economy is classified as open e.g. the value of exports in 2002 was

equal to 90.8 % of GDP while imports were valued at 99.7 % of GDP (Swaziland Government, 2004).

Determinant 4: FDI incentives offered by the government.

Literature: Government incentives to attract FDI may include duty free imports of production inputs, tax holidays, low corporate tax, tax rebates for training local personnel, flexible repatriation exchange policies for profits and dividends as well as low-cost production facilities. FDI incentives are expected to positively influence FDI inflows. Investors to Northern Ireland ranked it as very important when considering foreign investment while South African investors ranked it as important when considering investment to SSA and Sub-Equatorial Africa (Arnold (1998), Mwangi (1995). Foreign investors in Bahran said it was an unimportant determinant (Gilmore, 2003). Swaziland offers a number of incentives including a low corporate tax rate for FDI (10%), import duty exemption for manufacturing enterprises and low cost production facilities.

Determinant 5: Return on investments made in foreign country

Literature: Return on investment is top priority for investors and measures the profit as a percentage of total investment. Importance rating for return on investment is always adjusted for political and economic risk (Asiedu, 2001). Data on the return on investments for TNCs in Swaziland compared to other divisions cannot be obtained as the capital market in Swaziland is very small.

Determinant 6: The political stability.

Literature: Political stability is expected to increase FDI inflows. South African investors viewed it as a very important (actually the most important) determinant when considering FDI to SSA and Sub-Equatorial African countries (Arnold (1998), Mwangi (1995)). Investors to Bahrain also viewed it as very important (Gilmore, 2003). Mozambique attracted more FDI flows after the political conflicts (Loots, 2000b). Swaziland adopted its constitution in 2005 though political multi-parties still remained banned. The Monarch has the power to appoint the Executive arm of government from the members of parliament of whom 70% are elected by the people and the other 30% by the Monarch.

Determinant 7: The respect of the rule of law.

Literature: Rule of law broadly refers to the independence of the judiciary in dealing with legal matters. The respect of the rule of law is expected to increase FDI inflows as it gives investors the confidence that contracts and any other legal matters it shall be involved in shall be fairly dealt with (Jones et.al. (2000), Haley (2000)). Swaziland has a dual judiciary system, the civil and the traditional courts, and the civil judiciary remains fairly independent.

Determinant 8: The host country's economic stability.

Literature: Economic stability is measured by the variance of the consumer price index (CPI) and the volatility of the local currency exchange rate. Economic stability attracts foreign investors. South African investors to SSA and Sub-Equatorial Africa ranked it as a very important determinant (Arnold (1998), Mwangi (1995)) while investors to Bahrain and Northern Ireland ranked it as important and

only slightly important respectively (Galmore, 2003). Swaziland's economy has remained stable in the last few years with the Central Bank adopting inflation targeting policies. The country's currency is linked and always at par with the South African Rand.

Determinant 9: The size of local & regional markets.

Literature: A large local market coupled with a positive potential growth will attract FDI especially market seeking investment (Asiedu, 2001). The potential growth is perceived from trends in GDP growth. Investors to Turkey viewed it as a very important (actually the most important) determinant (Coskun, 2001) while South African investors to SSA and Sub-Equatorial countries placed it as one of the top five important determinants (Arnold (1998), Mwangi (1995)). The Swaziland economy is one of the smallest in the world but Swaziland is part of regional markets like SADC and COMESA.

Determinant 10: Trade agreements with overseas markets.

Literature: Countries may establish trade agreements with larger overseas markets like the European Union and the USA. The trade agreements may include tax exemptions for certain goods. The USA has signed AGOA with certain African countries which allows for tax free imports of textiles and apparel products from the African countries. Companies from countries which do not have such tax exemptions may gain competitiveness in such large markets by setting production in the countries with the AGOA status.

Determinant 11: Location advantage.

Literature: During the economic sanctions era of South Africa, Swaziland experienced significant FDI inflows mainly from companies who

wanted to access the large South African market. Even though Swaziland had other FDI incentives, the main determinant of FDI was its close proximity to South Africa. The political climate in South Africa has since changed and if the country has a specific location advantage, it might no longer be only specific to the South African markets.

Determinant 12: Flexibility of the labour laws.

Literature: Labour market flexibility refers to the ease with which firm can legally 'hire and fire' or change employees' working conditions e.g. working hours, job description and wages. A flexible labour market lowers labour costs and therefore labour market flexibility is expected to be positively correlated to FDI inflows Floyd (2003). Pull (2002) argues that labour market flexibility is only attractive to certain types of investors especially those with less focus on quality or technology. Labour relations in Swaziland are governed by the employment act of 1982 and some employers view them to be inflexible.

The African countries are relatively small in market size, as measured by the countries' gross domestic products. Given this and the fact that most FDI to SSA is into the natural and the manufacturing sectors, most FDI to SSA is motivated by efficiency seeking and is export-oriented (Razafimahefa, (2005); Asiedu (2001)). Natural resources are non-renewable and so the warning of a potential 'zero sum game' (Wint et al, 2002) when African countries compete for FDI should always be borne in mind developing policies aimed at making the above determinants more attractive.

3.7 Research Questions

Similar importance ranking studies classified FDI determinants into “very important,” “important” and “not so important” categories. For satisfaction ratings, the classifications used were “very satisfactory”, “satisfactory” and “not so satisfactory”. The same classifications will be used in this study,

Even though the importance ratings of FDI determinants have been researched and established for certain countries, these results may not be assumed to be the same to those of foreign investors in Swaziland. As already mentioned, the importance ratings are dependent on the motive for investment and are country specific. The satisfaction ratings are dependent on perceptions of the foreign investors in the specific country.

To achieve the objectives of the study, the following research questions would need to be answered:

3.7.1 The first research question

What are the factors that foreign investors considered prior to investing in Swaziland?

3.7.2 The second research question

How do the investors rate the 12 determinants identified in the literature and which of these factors are classified as “very important”, “important” and “not so important” by the investors?

3.7.3 The third research question

What are the current satisfaction ratings of the twelve determinants by foreign investors in Swaziland? Which factors are classified as “very satisfactory”, “satisfactory” and “not so satisfactory” by foreign investors in Swaziland?

3.7.4 The fourth research question

What are the Swaziland's FDI promotion strategies?

The research questionnaire was designed to collect data that would help answer these four research questions.

CHAPTER 4
RESEARCH METHODOLOGY

4.1 Selection of respondents

The respondents for data collection of this research were members of senior management of the foreign companies that invested in Swaziland after 1994. The investment could have been either □reenfield, M & A or purchasing of more than 10 % of an existing company and/or a reinvestment of earnings.

The population was not so large as to require sampling. Annual reports from the Swaziland Investment Promotion Agency, the Federation of Swaziland Employers and the Minstry of Enterprise and Employment as well as personal references were used to identify foreign companies that satisfied the research criteria. All companied approached kindly agreed to participate in the study giving a total of thirty-one respondents.

The Swaziland Investment Promotion Agency has a Foreign Investment department whose focus is to develop strategies, policies and offer support to foreign investors. The director of this department, who at the time of the study had been the Acting Chief Executive Officer at SIPA for more than 6 months, was interviewed with an aim of determining the country's FDI promotion strategies. Though SIPA is the main custodian of foreign investment promotion initiatives and reports to the Ministry of Enterprise and Employment, the industrial officer at the Ministry of Enterprise and Employment was also interviewed.

4.2 Method of data collection

Data from the respondents was collected through structured interview using the questionnaires in the Appendix. Questionnaire "A" was used for collecting data from the investors while "B" was used to collect data from the Swaziland

Investment Promotion Agency and the Ministry of Enterprise and Employment. Letters of introduction explaining the purpose of the research were first faxed to potential respondents followed by a telephonic contact to discuss if a potential respondent was willing to participate in the study and to set an appointment for the interview. The questionnaire was then personally delivered or sent by facsimile ahead of the interview so that respondents had time to structure their thoughts.

4.3 Method of Data Analysis

The data collected was verbal ordinal data and not interval data. This means that arithmetic analysis of the data would not appropriate as the numbers represent categories of the responses as opposed to linear numeric values. The ordinal data was thus be converted to interval data with the use of correspondence analysis (Bendixen and Sandler, 1995) before any arithmetic analysis was applied to it. Though this technique makes data analysis easier, it does not overcome the problem of 'categorisation error' which is introduced as a result of categorising responses which have a wide spread of underlying values into distinct single categories (Stacey, 2005). The method of correspondence analysis was used in order to make a meaningful comparison to other studies of FDI determinants that have been carried out for other countries. A new algorithmic approach for analysing ordinal data that seeks to address some of the limitations of correspondence analysis has been proposed by Stacey (2005). The data collected will also be analysed using this method to see if there is any material difference between the two techniques.

4.3.1 Calculation of importance rank scores

The ordinal importance categories of 1, 2, 3, 4 and 5 were converted into interval data using correspondence analysis and the rescaled values were found to be 1, 3.21, 4.12, 4.40 and 5.

In some cases more than one question was used to determine the importance rating of a determinant. Take for instance Factor 1 which is "physical infrastructure

development" and questions B2, B7, B8 and B9 of the questionnaire all relate to this determinant. The frequency count for the rating of each of the statements B2, B7, B8 and B9 was done. The importance rank score for "physical infrastructure development" was calculated from the percentage frequency distribution of the combined statements and the rescaled values of the categories. This calculation is demonstrated from the data obtained for "physical infrastructure development" as shown in Table 7 below.

Table 7. Data for "physical infrastructure development" to demonstrate how data was analysed

	Frequency Distribution of Ratings					Total
	1	***2***	***3***	***4***	***5***	
B2	0	5	3	13	10	31
B7	0	0	6	10	15	31
B8	0	1	3	9	18	31
B9	0	0	8	7	16	31
Grouped frequency Responce	0	6	20	39	59	124
Percentage or Normalised Ratings	0	5	16	31	48	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Physical Infrastructure development" = (0 x 1) + (5 x 3.21) + (16 x 4.12) + (31 x 4.40) + (48 x 5) = **458**						

The grouped frequency response of each of the determinants (in this example the determinant is "physical infrastructure development") were obtained by adding the frequencies in each of the categories of all the questions that pertain to the determinant. The grouped frequency responses were then normalised by expressing it as a percentage of the total responses. This allowed for comparison of the frequency distribution of the ratings of all the determinants even though the determinants had different numbers of questions that pertained to them.

Clearly the minimum importance rank score that a determinant can have is 100 (if it has 100% of the ratings in the 1st category) and the maximum possible rank

score is 500 (if a determinant has 100% of the ratings in the last category). Dividing the possible range 100-500 into three categories gives rise to the following guidelines for classification of the determinants

Table 8. Rank Score Classification Categories

Rank Score	Classification of Determinant
100 to 233.33	Not so important
>233.33 to 366.67	Important
>366.67 to 500	Very Important

The rank score of 458 for "physical infrastructure development" meant that it was classified as a "very important" determinant.

4.3.2 Calculations of satisfaction rank scores

The ordinal satisfaction categories of 1, 2, 3, 4 and 5 were converted into interval data using correspondence analysis and the rescaled values were found to be 1, 2.46, 3.12, 4.33 and 5.

The data analysis for the satisfaction rating was similar to that of the importance rating. Determinants were classified into "not satisfactory", "satisfactory" and "very satisfactory" categories depending on their satisfaction rank score. The classification guidelines were the same as those for the importance ratings as the rank score range would still range from a minimum of 100 to a maximum of 500.

4.3.3 Analysis of investment promotion strategies

A quantitative analysis of the interviews with the Director of Foreign Investment and the Industrial Officer was analysed to identify new and upcoming FDI promotion strategies from the Swaziland government.

CHAPTER 5
RESEARCH RESULTS

5.1 Introduction

In this chapter a summary of the research results are presented in the order in which the research questions were presented in chapter 4. The full data showing the frequency distribution of responses for each factor and the arithmetic manipulation carried out to give the ranks scores and classifications are given in appendix.

Thirty one foreign investment companies in Swaziland participated in the study. Two government officials were interviewed in relation to the country's FDI promotion strategies.

5.2 Determinants of FDI in Swaziland

The questionnaire allowed investors to add other factors that they considered prior to investing in Swaziland, in addition to the twelve factors identified in the literature. Most companies affirmed that the twelve determinants given in the questionnaire for rating were the only ones they had considered and only four companies added the following factors

Factor 13: The negotiation skills of the unions

Factor 14: The availability of labour

Factor 15: Local demand of product

Factor 16: The country's climate

5.3 Relative importance ranking of the 12 determinants

Foreign investors were asked to rate the importance of the determinants on a scale of 1 (unimportant) to 5 (important). The grouped ratings' frequency distribution for each of the determinants is given in the appendix. For each determinants, the rank score was calculated and used to classify the determinant

as “very important”, “important” or “not so important”. The results shown in Table 9 below shows that ten of the factors were found to be “very important”, two of them were found to be “important” and none of the factors were found to be “not so important”.

Table 9. The importance ranking of the 12 determinants

Determinant	Rank Score	Importance Classification
Political Stability	475	Very important
Economic stability	462	Very important
Overseas export partners	461	Very important
Independence of the judiciary	459	Very important
Physical Infrastructure development	458	Very important
Flexibility of labour laws	458	Very important
Return on investment	453	Very important
Trade openness of the economy	450	Very important
FDI incentives by government	422	Very important
Human capital development	392	Very important
Location advantage	362	Important
Size of local and regional markets	330	Important

5.4 Relative Satisfaction ranking of the 12 determinants

The investors were asked to give their current satisfaction levels ratings of the determinants. The grouped satisfaction ratings for each factor are given in the appendix. Table 10 gives the satisfaction ratings rank score for each determinant. Half of the determinants were perceived to be “very satisfactory” whereas the other

half were found to be “satisfactory”. None of the factors were found to be “not so satisfactory.”

Table 10. Satisfaction rank scores of the 12 determinants

Determinant	Rank Score	Satisfaction Classification
Independence of the judiciary	433	Very Satisfactory
Economic stability	426	Very Satisfactory
Trade openness of the economy	419	Very Satisfactory
Political Stability	397	Very Satisfactory
Overseas export partners	388	Very Satisfactory
Flexibility of labour laws	383	Very Satisfactory
Physical Infrastructure development	363	Satisfactory
FDI incentives by government	361	Satisfactory
Return on investment	339	Satisfactory
Location advantage	339	Satisfactory
Human capital development	333	Satisfactory
Size of local and regional markets	299	Satisfactory

5.5 Swaziland’s Foreign Investors’ Promotion Strategies

Both of the government officials interviewed conceded that the specific location advantage that Swaziland enjoyed during the period of economic sanctions to South Africa has dissipated. After 1994 Swaziland found itself faced with increased competition for FDI from South Africa and more recently the competition increased when the civil war in Mozambique stopped. The country has had to devise new FDI promotion strategies in the wake of these changes in the region. So far Swaziland has focused on the relatively lower cost of labour as well as the political

ties the country has with the Republic of Taiwan. These strategies have led to success in attracting investors to the textile and apparel sector.

Looking into the future, in addition to working on foreign investor retention strategies that would slow down the disinvestments from the country, Swaziland through SIPA has embarked on diversification strategies aimed at attracting foreign investors to the secondary economic such as the pharmaceutical manufacturing sector or the electronic goods assembly/manufacturing sector. The country would be a late comer in these sectors and lacks the supporting industries for these sectors. Rather than looking at generic strategies for attracting investors into these secondary economic sectors, SIPA plans to target specific investors and ensuring that the country offers a full solution to a large investor.

CHAPTER 6
DISCUSSION OF RESULTS

6.1 Conversion of the verbal scale to interval scale

The data collected in the research is meant to establish the attitude and perceptions of investors. The verbal scale used required the investors to indicate their responses in one of five categories foe each determinant. The limitation of measuring attitudes and perceptions, which vary continuously, using quantised equally spaced categories is acknowledged. This research, like many human sciences research, makes the simple assumption that there is linearity between verbal scale data obtained and the underlying attitudes between measured.

In carrying out the analysis the data was first converted to interval data using correspondence analysis. Asymmetric plots of the means of the ordinal data from the importance and the satisfaction rating are given in Figure 8 and Figure 9

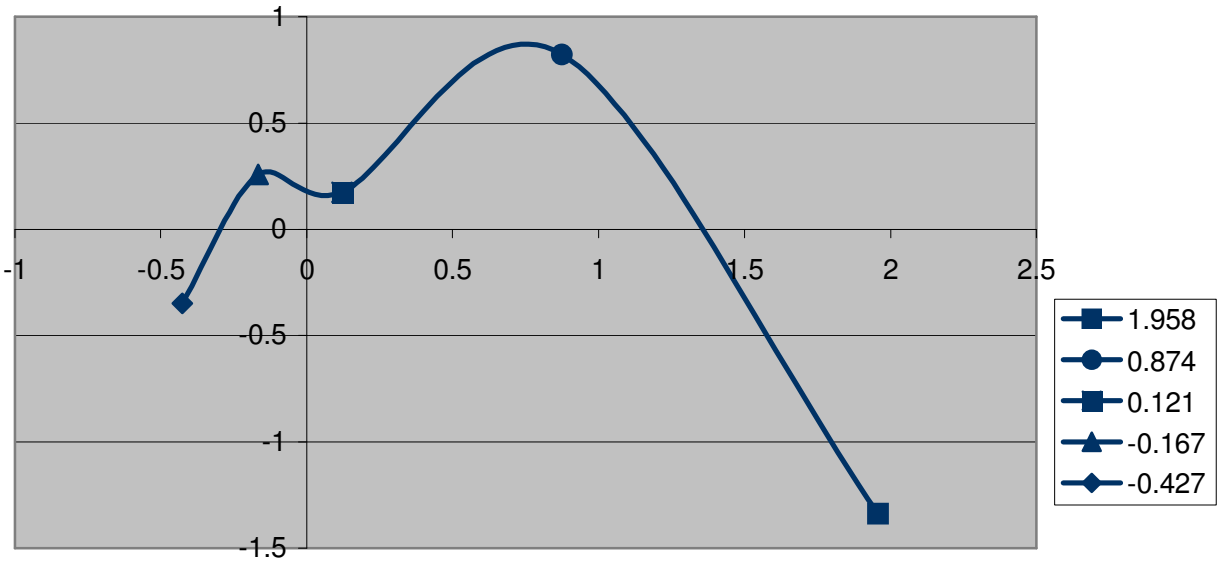

Figure 8. Correspondence Analysis of the Asymmetric Plot of the ordinal scale importance rating data

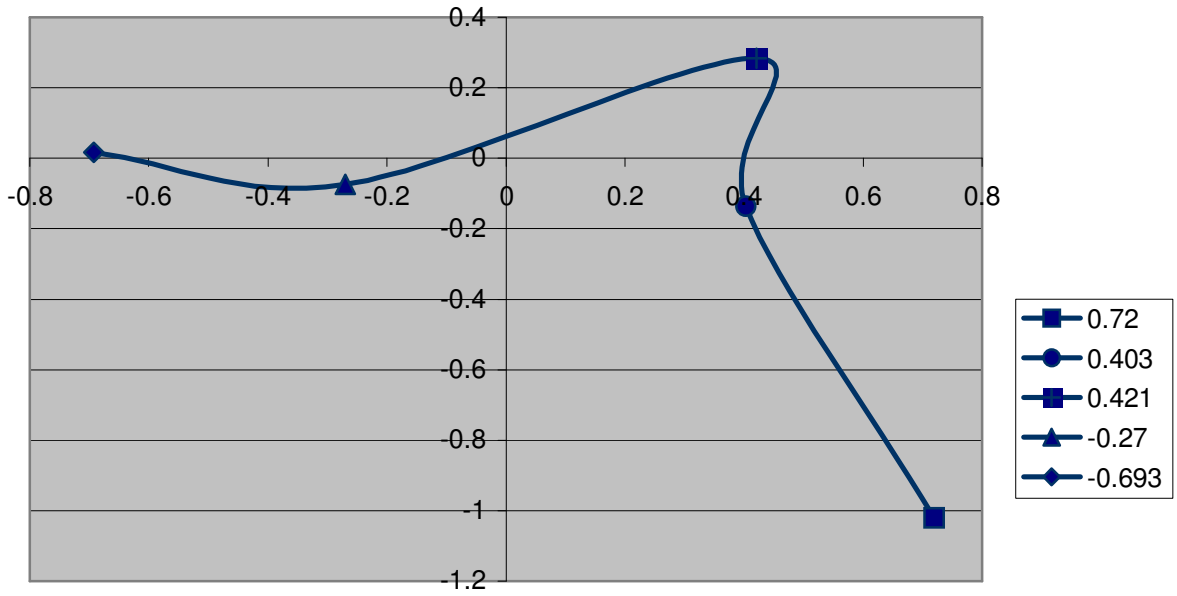

Figure 9. Correspondence Analysis of the Asymmetric Plot of the ordinal scale satisfaction rating data

In his paper on the conversion of verbal scales to interval scales, Bendixen et.el. (1995), points out that the verbal data would be spread over a non-linear "horseshoe" curve and the re-scaling procedure is based on the distances between the points on the curve. The method takes into account the non-linear "horseshoe" effect of the data. In looking at the reliability and validity of techniques used for the analysis of ordinal verbal data, Stacey (2005) criticises the advocates of the method of correspondence analysis for being silent on the reliability of the rescaling technique if the asymmetric plot of the ordinal data does not resemble a regular horseshoe as is the case in the data obtained in this research (Figure 8 and Figure 9).

The data was also analysed using the distribution-fitting algorithmetic approach proposed by Stacey (2005). The results obtained from this method are not substantially different from those obtained from the method of correspondence analysis (See appendix E for the importance ranking and satisfaction rank scores obtained by this method). Since the results from this research will be compared to

the findings from similar research carried out for other African countries that used the method of correspondence analysis this, coupled with the simplicity and the insignificant difference in the results with those obtained from the algorithmetic method, influenced the choice of this method.

The rescaled values obtained for the importance rating and the satisfaction ratings were

Table 11. The rescaled values of the verbal scales

Scale Point	Ordinal Verbal Value	Rescaled Value
Unimportant	1	1.00
Slightly important	2	3.21
Important	1	4.12
Very Important	4	4.40
Extremely Important	5	5.00

Scale Point	Ordinal Verbal Value	Rescaled Value
Unsatifactory	1	1.00
Slightly satisfactory	2	2.46
Satisfactory	1	3.12
Very Satisfactory	4	4.33
Extremely Satisfactory	5	5.00

The different rescaling for the importance rating and the satisfaction rating in the same study is not unusual as Bendixen (1995, page 43) points out that “different applications of the same scale, even within the same study, influences the appropriate numerical values that should be assigned to the scale points.”

6.2 Overall Frequency Distributions

The importance ratings were first analysed to see the number of times each of the categories (1 up to 5) was used by investors. The overall frequency count of the importance ratings, shown in Table 12 show that less than 20% of the responses were on the “unimportant” and “slightly important” categories. The responses in the importance ratings are skewed towards the ‘extremely important” rating which had 38% of the responses.

Table 12. Overall frequency distribution of all responses for importance rating

	1	*2*	*3*	*4*	*5*	*Total*
Combined Importance Ratings Frequency Distribution	31	70	117	188	245	651
Percentage Distribution	5	11	18	29	38	100%

In obtaining a similar frequency spread of importance ratings, Mwangi (1995) concludes that this might be an indication that the factors identified in the literature are the most important for the respondents. Indeed, in answer to question B22 of the questionnaire, of the 31 investors interviewed only four of them added determinants which were not on the list.

On the other hand the combined frequency for the satisfaction ratings reach a maximum at “satisfactory” and the “very satisfactory” ratings and decline moving towards the “extremely satisfactory” rating, as shown in Table 13.

Table 13. Overall frequency distribution of all responses for satisfaction rating

	1	*2*	*3*	*4*	*5*	*Total*
Combined Satisfaction Ratings Frequency Distribution	29	93	197	210	122	651
Percentage Distribution	4	14	30	32	19	100%

This is an indication that the satisfaction rank scores might be lower in lower categories compared to the importance rank scores.

6.3 Determinants of FDI in Swaziland

Most of the respondents (27 out of 31) indicated that the 12 determinants identified from the literature were the only ones that they had considered prior to investing in Swaziland. The following four determinants were added by the other respondents

6.3.1 Negotiation Skills of Labour Organisations

One foreign investors indicated that prior to investing, they researched to see if the labour organisations are able to differentiate work issues from other issues (e.g. politics) that may cloud negotiations with labour organisations. The investor pointed out that their company placed significant weight on this factor as they did not want to find themselves faced with labour actions for issues that they did not have control over.

6.3.2 Availability of Labour

One investor pointed out that in addition to the human capital development, they had also considered the number of people available for employment taking into account the size of the adult population and unemployment rate. Though the researcher felt that this determinant was part of the human capital development of the country, the investor's opinion of singling it was understood.

6.3.3 Local and regional demand of product

Similar but not the same as the size of the local market, a respondent indicated that the demand of their product was relatively higher in Swaziland and hence they moved to Swaziland to increase their brand strength and use it as an export base to the other markets.

6.3.4 Swaziland's Climate

The country's climate was said to have been one of the factors considered by one of the respondents.

6.4 Importance Ranking of the determinants

Political stability, economic stability and the partnership with overseas markets were in the upper quartile in importance. The algorithm method of analysis also showed political stability and partnership with overseas markets as two of the three determinants in the top bracket.

In a study of factors affecting the flow of FDI into the manufacturing sector in South Africa (Chipfupa, 1999) and in a similar study on the factors influencing South African FDI in sub-Equitorial Africa, both political stability and a country's access to overseas markets were ranked in the upper quartile of the determinants studied.

Swaziland has export agreements with the USA, under the African Growth and Opportunity Act (of the United States). Under this agreement, African countries can export unlimited quotas of textile and apparel goods without incurring any import duties or taxes in the USA. Dlamini (2006) acknowledge that this agreement has been the main reason for Swaziland's success in attracting investors in the textile sector.

Asiedu (2002) asserts that in spite of reported high returns on investments in SSA, foreign investment to SSA remains relatively low because Africa is perceived as being risky with investors not being certain of the stability of government policies. In this study, investors ranked political stability as the most important factor they had considered prior to investing in Swaziland. The United States of America uses the AGOA export agreement to promote good governance and political stability in African countries by only extending such agreements with countries that they perceive to be practising good governance and have fair political policies. The two factors: political stability and the export partnership agreement are not only linked to one another in Swaziland, but are the most important factors for foreign investment into the country.

Political stability, overseas export agreements and the trade openness of the economy were the most frequently mentioned determinants for continuing to invest in Swaziland (question B23 of questionnaire A). This further accentuates the importance of these factors.

The country's human capital development, its specific location advantage and the size of its market were ranked in the lowest quartile. Analysis by both correspondence analysis and the algorithmic method gave similar results.

The finding that Swaziland's classification as an attractive market 'with limited scope' due to its small size is not an important factor for foreign investors suggests that most of foreign investors are 'export oriented' rather than 'market seeking' investors. This would also explain why the investors gave a high importance ranking for the 'overseas export partners' and mentioned it as an important factor to influence their prolonged stay in Swaziland.

6.5 Satisfaction rank scores of the determinants

The rank scores obtained by correspondence analysis are similar to those obtained by the algorithmic method. Table 10 shows the independence of the judiciary to have the highest satisfaction rank score. This was rather very surprising especially after the infamous November 28, 2002 statement where government refused to follow a court ruling and a judicial crisis ensued culminating in the resignation of the judges of the Court of Appeal. This is an indication that the efforts of the new government to restore the independence and respect of the rule of law have been successful.

Swaziland's currency (the Lilangeni) is linked at par to the South African Rand and the Central bank of Swaziland uses the same interest rates as those of South Africa. This has benefited the country in ensuring that the economic stability remains the same as the South African one and is not viewed to be more unstable.

The good satisfaction rating of the country's economic stability is therefore not surprising.

Table 10. Satisfaction rank scores of the 12 determinants

Determinant	Rank Score	Satisfaction Classification
Independence of the judiciary	433	Very Satisfactory
Economic stability	426	Very Satisfactory
Trade openness of the economy	419	Very Satisfactory
Political Stability	397	Very Satisfactory
Overseas export partners	388	Very Satisfactory
Flexibility of labour laws	383	Very Satisfactory
Physical Infrastructure development	363	Satisfactory
FDI incentives by government	361	Satisfactory
Return on investment	339	Satisfactory
Location advantage	339	Satisfactory
Human capital development	333	Satisfactory
Size of local and regional markets	299	Satisfactory

The relative low cost of labour, though not explicitly on the list, was the most frequently mentioned factor as one that makes Swaziland an attractive host for FDI.

The location advantage, human capital development and the size of Swaziland's economy are in the lowest quartile in satisfaction ratings. During the interviews, investors were critical of the country's labour productivity and general lack of respect for work. It was therefore not surprising to find human capital development in the lowest quartile of the satisfaction rankings.

The availability and reliability of electricity supply, the availability of low cost production facilities and production costs were the frequently mentioned factors whose current state is a deterrent for FDI inflows (question C22). Another factor which was not in the list for rating but was frequently mentioned as a deterrent is

the perceived long turn around times for responses from government or its offices on all matters. This response is aligned with observations by the South Africa Global Competitiveness Hub (2005) researchers in their study of Swaziland's administrative, procedural and regulatory policies for foreign investors.

6.6 Comparison of importance and satisfaction rank scores

A significant and unique finding of the study would be the comparison of satisfaction rank scores with the importance rank scores of the determinants.

Table 14. A comparison of importance ranking and satisfaction rank scores of the determinants

Determinant	Importance Classification; Rank Score	Satisfaction Classification; Score
Political Stability	Very important; 475	Very Satisfactory; 397
Economic stability	Very important; 462	Very Satisfactory; 426
Overseas export partners	Very important; 461	Very Satisfactory; 388
Independence of the judiciary	Very important; 459	Very Satisfactory; 433
Physical Infrastructure development	Very important; 458	Satisfactory; 363
Flexibility of labour laws	Very important; 458	Very Satisfactory; 383
Return on investment	Very important; 453	Satisfactory; 339
Trade openness of the economy	Very important; 450	Very Satisfactory; 419
FDI incentives by government	Very important; 422	Satisfactory; 361
Human capital development	Very important; 392	Satisfactory; 333
Location advantage	Important; 362	Satisfactory; 339
Size of local and regional markets	Important; 330	Satisfactory; 299

All the upper quartile important determinants were rated as being "very satisfactory." Of concern might be "physical infrastructure development" which was ranked as the 5th (out of the 12) most important determinant but only received a "satisfactory" rating. The availability and reliability of the electricity supply (which

formed part of the physical infrastructure development rank score) was one of the frequently mentioned factors whose current state is a deterrent for FDI inflows.

6.7 Comparison of the country's FDI promotion strategies against investor perceptions

The government officials interviewed conceded that there was a need for developing new strategies for attracting new foreign investors especially in light of the growing competition from South Africa and Mozambique. The director of FDI at SIPA mentioned that much as they are developing strategies for attracting new investors, as an organisation they are equally zealous about developing strategies for retaining the investors already in the country.

The Swaziland government is not in a position to increase incentives to investors to compete with those offered by neighbouring countries because of the adverse economic climate it faces. Swaziland therefore aims at retaining its present investors by providing a climate conducive to increased productivity through the lowering of production impediments like telephone or electricity black-outs, water shortages or government administrative procedures.

By addressing these impediments, SIPA would be correctly addressing the concerns raised by investors in the study. What remains questionable is SIPA's ability to be the implementing entity for such a strategy especially as most of the services are provided by other government companies or departments. SIPA would best serve as the facilitator for sensitising all the other government entities to the strategy.

In answering question C24, on how the country can enhance its competitive position for FDI inflows, many (23 out of 31) investors indicated that the productivity rate of the workforce is very low and this is one of the major causes of capital flight from the country. On the on-going strategies of addressing

impediments of FDI, there was none that was aimed at addressing the perceived low productivity rates of the country's labour force.

In attracting new foreign investors, SIPA aims at developing a focus strategy aimed at attracting a few big investors in the mining and the manufacturing/ construction sector. Having the foresight to recognise the lack of supporting industries for these sectors SIPA is focussing only on a few whose support can be developed. This strategy lacks partnership with the education institutions, who would need to train personnel for these sectors. Investors decried the training, productivity and lack of professionalism of the country's human capital. The new sectors that SIPA plans on focussing on, can only draw investors if there is enough human resource for it.

CHAPTER 7
CONCLUSION

7.1 Summary of the main findings

The main findings of the research were that political stability, economic stability and the Swaziland's overseas export partners were in the upper quartile of the importance ranking of FDI determinants. All these factors are currently perceived as being "very satisfactory" to the respondents.

The country's specific location as well as its local and regional market size received the lowest importance ranking. This suggests that most of the respondents are 'export-seeking' as opposed to 'market-seeking' investors.

The country's export partnerships and the openness of the economy were viewed as the most important determinants for investors' continued stay in Swaziland. This further supports our conclusion that the respondents are "export-oriented" foreign investors.

The country's physical infrastructure development, though initially rated as "a very important" determinant by the respondents prior to investment, currently has one of the lowest satisfaction ratings. It was also the most frequently mentioned determinant to be perceived as a deterrent to new investors.

7.2 Implications of findings on Swaziland's FDI strategies

The fact that both political stability and the country's overseas export partners are in the upper quartile of investors importance ranking makes Swaziland vulnerable at this time in its political life as it is undergoing political changes. The political transition has to be managed carefully and transparently for the benefit of continued FDI inflows.

The country's economic slow down has been mainly attributed to TNCs relocating to neighbouring South Africa hence the Swaziland Investment Promotion Agency has prioritised the launch of investors' retaining strategies. SIPA wants to provide a competitive FDI host country that focuses on ensuring that investors' impediments for business operations (e.g. electricity or water outages) are resolved in the quickest time possible. The Swaziland Investor Roadmap alludes to SIPA's resource limitations and mandate in playing this role (Southern Africa Global Competitiveness Hub (2005), therefore it might be more prolific to have SIPA facilitating an investment focus forum for business utility and service providers that aims to create a competitive business environment in Swaziland. A culture of competitiveness has to be embedded in all the service providers for the retaining strategies to be successful. The service and current state of Swaziland's infrastructure was most frequently cited as being viewed as a major deterrent for new investors.

The culture of business competitiveness should not only be fostered in infrastructure service providers, but the forum should also include the education sector. Productivity and work commitment were also perceived to be low by most investors. The country has to find strategies for addressing these concerns especially because most investors explicitly said these factors negatively impact the currently attractive relatively low cost of labour.

7.3 Suggestions for future research

No statistical analysis was done to test if there was a significant difference in the rank scores. This maybe an area for future research especially if the sample size used is large enough and a more robust method of analysis is used. Of more practical use to the country's policy makers might be a research that seeks to establish from a group of the specific type of potential investors they target to invite to the country as to what factors have been holding them back from investing in Swaziland.

Swaziland's economy is small even by Sub-Saharan African standards so it is not on the radar screen of most trans-national corporations. By not participating in most international surveys, the country runs the risk of not being able showcase its attractive determinants in the international community. Data for investors to use for international benchmarking becomes scarce. The Swaziland Investment Promotion Agency has to encourage local universities to develop FDI relevant data with the aim of making it available to the custodians and publishers of international surveys. This would significantly lower the initial cost of including Swaziland in these surveys and would encourage such organisations to invite Swaziland as a participant.

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APPENDIX A:

QUSTIONNAIRES USED IN THE RESEARCH

QUESTIONNAIRE "A" FOR

A STUDY TO ESTABLISH THE IMPORTANCE AND ATTRACTIVENESS RATING OF FACTORS THAT FOREIGN INVESTORS CONSIDER BEFORE UNDERTAKING INVESTMENT TO SWAZILAND & ANALYSING THE COUNTRY'S FDI PROMOTION STRATEGIES

Thank you in advance for taking your time to fill in this questionnaire.

There are three sections of the questionnaire on three pages including this page.

Section A requires general information about your company. Section B requires you to do an importance rating of factors that your company use(d) when considering investment into Swaziland. In Section C you are requested to do an attractiveness rating of each of the factors.

SECTION A

Company Name: ……

Position of Respondent: …….

Company' Business Sector: (Please Tick Appropriate)

Manufacturing Textile	….	Energy	….
Manufacturing Food & Beverages	….	Agriculture Sugar-cane	….
Manufacturing Plastics	….	Agriculture Forestry	….
Manufacturing Pulp & Paper	….	Services	….
Tourism	….	Other (Specify)	……
Mining	….		

Form of latest investment: (Please Tick Appropriate)

Greenfield Investment	….		Reinvestment	….	
Merger	….		Acquisition	….	
Equity Investment	….	….	….		
	<10%	10-50%	>50%		

In which year did you make the last investment? ……

Please continue with Section B and C **only** if the last investment was made within the last twelve years.

SECTION B

In this section there are 21 factors that foreign investors might use when considering undertaking investment in Swaziland. You are requested to rate each factor according to your company's criteria on a scale of **1** = unimportant, **2** = slightly important, **3** = important, **4** = very important or **5** = extremely important, by putting a cross (X) on the appropriate category.

Factor	Unimportant	Slightly important	important	Very Important	Extremely Important
B1. Level of human capital development	1	2	3	4	5
B2. Availability & reliabiliy of electricity supply	1	2	3	4	5
B3. Relatively low production costs	1	2	3	4	5
B4. Country's openness to trade	1	2	3	4	5
B5. Independence of the judiciary	1	2	3	4	5
B6. Availability of low cost production facilities	1	2	3	4	5
B7. Availability of running water	1	2	3	4	5
B8. Transport infrastructure development	1	2	3	4	5
B9. Reliability & availability of telecommunication infrastructure	1	2	3	4	5
B10. The tax system	1	2	3	4	5
B11. Political stability	1	2	3	4	5
B12. Local demand for your product	1	2	3	4	5
B13. Access to SADC, COMESA & other African markets	1	2	3	4	5
B14. Stability of exchange rate	1	2	3	4	5
B15. Potential growth of the Swaziland market	1	2	3	4	5
B16. Ease of obtaining foreign currency	1	2	3	4	5
B17. Profitability of your investment	1	2	3	4	5
B18. Stabilityof the inflation rate	1	2	3	4	5
B19. The flexible labour laws	1	2	3	4	5
B20. The export agreements with the EU & USA	1	2	3	4	5
B21. Swaziland's specific location	1	2	3	4	5

B22. Please list any other factors that are not mentioned above but were considered by your company:

.....

.....

.....

B23. Please indicate the three most important factors to your company continuing its investment in SD

.....

.....

.....

SECTION C

Please rate the current attractiveness of the factors on a scale of

1 = unsatisfactory, **2** = slightly satisfactory, **3** = satisfactory, **4** = very satisfactory or **5** = extremely satisfactory

Factor	Unsatisfactory	Slightly satisfactory	satisfactory	Very satisfactory	Extremely satisfactory
C1. Level of human capital development	1	2	3	4	5
C2. Availability & reliabiliy of electricity supply	1	2	3	4	5
C3. Relatively low production costs	1	2	3	4	5
C4. Country's openness to trade	1	2	3	4	5
C5. Independence of the judiciary	1	2	3	4	5
C6. Availability of low cost production facilities	1	2	3	4	5
C7. Availability of running water	1	2	3	4	5
C8. Transport infrastructure development	1	2	3	4	5
C9. Reliability & availability of telecommunication infrastructure	1	2	3	4	5
C10. The tax system	1	2	3	4	5
C11. Political stability	1	2	3	4	5
C12. Local demand for your product	1	2	3	4	5
C13. Access to SADC, COMESA & other African markets	1	2	3	4	5
C14. Stability of exchange rate	1	2	3	4	5
C15. Potential growth of the Swaziland market	1	2	3	4	5
C16. Ease of obtaining foreign currency	1	2	3	4	5
C17. Profitability of your investment	1	2	3	4	5
C18. Stabilityof the inflation rate	1	2	3	4	5
C19. The flexible labour laws	1	2	3	4	5
C20. The export agreements with the EU & USA	1	2	3	4	5
C21. Swaziland's specific location	1	2	3	4	5

C22. In your opinion, what is single most important factor whose current state is a deterrent for FDI inflows to Swaziland

.....

C23. In your opionion, which is single most important factor that makes SD an attracting host for foreign investment

.....

C24. Please indicate, how in your opinion, the country can enhance its competitive position for FDI inflows

.....

.....

.....

QUESTIONNAIRE "B" FOR

A STUDY TO ESTABLISH THE IMPORTANCE AND SATISFACTION RATINGS OF FACTORS THAT FOREIGN INVESTORS CONSIDER BEFORE UNDERTAKING INVESTMENT TO SWAZILAND & ANALYSING THE COUNTRY'S FDI PROMOTION STRATEGIES

Thank you in advance for taking your time to participate in this study. These are the questions that will guide our interview. As already indicated, a different questionnaire and interviews are held with foreign investors in the country to establish their importance rating of factors that influence their FDI location. They will also rate the current satisfaction level of those factors. The aim of this interview with your department is to analyse the FDI promotion strategies that the country is pursuing.

Questions

1. In your opinion, what is the single most important factor that makes Swaziland an attractive host for FDI?

   ……
   ……

2. The significant FDI inflows that the country experienced in the 1980s up to the early 1990s have been attributed to the economic sanctions imposed on South Africa during that time. What is your opinion on that?

   ……
   ……
   ……

4. In the 2004/2005 report, the Central Bank of Swaziland attributes the decline in the country's economy to a decline in □reenfield foreign investments.

   a. What, in your opinion has been the factors that influenced the decline in FDI?
   b. What new strategies has the government or your department introduced to reverse this trend?

   ……
   ……
   ……

4. Are there any other new initiatives that your department is considering for promoting the country's competitive position for hosting foreign investment?

   ……

Appendix B

Frequency of Responses for Importance Ratings and Calculations of Rank Scores

Physical Infrastructure development

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B2	0	5	3	13	10	31
B7	0	0	6	10	15	31
B8	0	1	3	9	18	31
B9	0	0	8	7	16	31
Grouped Frequency Responses	0	6	20	39	59	124
Percentage or Normalised Ratings	0	5	16	31	48	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Physical Infrastructure development" = (0 x 1) + (5 x 3.21) + (16 x 4.12) + (31 x 4.40) + (48 x 5) = **458**						

Size of Local and Regional Markets

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B12	16	5	3	0	7	31
B13	3	9	7	6	6	31
B15	5	7	10	6	3	31
Grouped Frequency Responses	24	21	20	12	16	93
Percentage or Normalised Ratings	26	23	22	13	17	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Size of Local and regional markets" = (26 x 1) + (23 x 3.21) + (22 x 4.12) + (13 x 4.40) + (17 x 5) = **330**						

Trade Openness of the economy

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B4	2	3	4	7	15	31
B16	0	0	9	4	18	31
Grouped Frequency Responses	2	3	13	11	33	62
Percentage or Normalised Ratings	3	5	21	18	53	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Trade Openness of the Economy" = (3 x 1) + (5 x 3.21) + (221x 4.12) + (18 x 4.40) + (53 x 5) = **450**						

FDI Incetives offered by the Swaziland government

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B6	0	5	7	16	3	31
B10	3	0	3	15	10	31
Grouped Frequency Responses	3	5	10	31	13	62
Percentage or Normalised Ratings	5	8	16	50	21	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "FDI Incentives offered by the SD govt" = (5 x 1) + (8 x 3.21) + (16x 4.12) + (50 x 4.40) + (21 x 5) = **422**						

Return on Investment

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B3	0	6	4	18	3	31
B17	0	0	3	3	25	31
Grouped Frequency Responses	0	6	7	21	28	62
Percentage or Normalised Ratings	0	10	11	34	45	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Return on Investment" = (0 x 1) + (10 x 3.21) + (11x 4.12) + (34 x 4.40) + (45 x 5) = **453**						

Economic Stability

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B14	0	1	5	10	15	31
B18	0	0	3	15	13	31
Grouped Frequency Responses	0	1	8	25	28	62
Percentage or Normalised Ratings	0	2	13	40	45	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Economic Stability" = (0 x 1) + (2 x 3.21) + (13x 4.12) + (40 x 4.40) + (45 x 5) = **462**						

Human Capital Development

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B1	2	3	16	10	0	31
Grouped Frequency Responses	2	3	16	10	0	31
Percentage or Normalised Ratings	6	10	52	32	0	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Human Capital Development" = (6 x 1) + (10 x 3.21) + (52x 4.12) + (32 x 4.40) + (0 x 5) = **392**						

Political Stability

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B11	0	1	2	7	21	31
Grouped Frequency Responses	0	1	2	7	21	31
Percentage or Normalised Ratings	0	3	6	23	68	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Political Stabilty" = (0 x 1) + (3 x 3.21) + (6x 4.12) + (23 x 4.40) + (68x 5) = **475**						

Respect of the Rule of Law

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B5	0	0	4	15	12	31
Grouped Frequency Responses	0	0	4	15	12	31
Percentage or Normalised Ratings	0	0	13	48	39	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Respect of the Rule of Law" = (0 x 1) + (0 x 3.21) + (13x 4.12) + (48 x 4.40) + (39x 5) = **459**						

Specific Location Advantage

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B21	0	19	6	6	0	31
Grouped Frequency Responses	0	19	6	6	0	31
Percentage or Normalised Ratings	0	61	19	19	0	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Specific Location Advantage" = (0 x 1) + (61 x 3.21) + (19x 4.12) + (19 x 4.40) + (0x 5) = **362**						

Flexibility of Labour Laws

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B19	0	2	6	7	16	31
Grouped Frequency Responses	0	2	6	7	16	31
Percentage or Normalised Ratings	0	6	19	23	52	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Flexibility of Labour Laws" = (0 x 1) + (6 x 3.21) + (19x 4.12) + (23 x 4.40) + (52x 5) = **458**						

Export Partners

	Frequency Distribution of Importance Ratings					Total
	1	***2***	***3***	***4***	***5***	
B20	0	3	5	4	19	31
Grouped Frequency Responses	0	3	5	4	19	31
Percentage or Normalised Ratings	0	10	16	13	61	100
Correspondance Analysis Rescaled Values of Categories	***1***	***3.21***	***4.12***	***4.40***	***5***	
Rank Score for "Export Partners" = (0 x 1) + (10 x 3.21) + (16x 4.12) + (13 x 4.40) + (61x 5) = **461**						

Appendix C

Frequency of Responses for the Satisfaction Ratings and Calculations of Rank Scores

Physical Infrastructure development

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C2	0	5	19	7	0	31
C7	0	3	13	13	2	31
C8	3	2	9	10	7	31
C9	0	5	7	13	6	31
Grouped Frequency Responses	3	15	48	43	15	124
Percentage or Normalised Ratings	2	12	39	35	12	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Physical Infrastructure development" = (2 x 1) + (12 x 2.46) + (39 x 3.12) + (35 x 4.33) + (12 x 5) = **363**						

Size of Local and Regional Markets

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C12	7	5	10	6	3	31
C13	3	9	10	7	2	31
C15	4	9	12	6	0	31
Grouped Frequency Responses	14	23	32	19	5	93
Percentage or Normalised Ratings	15	25	34	20	5	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Size of Local and Regional Markets" = (15 x 1) + (25 x 2.46) + (34 x 3.12) + (20 x 4.33) + (5 x 5) = **299**						

Trade Openness of the economy

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C4	0	3	6	9	13	31
C16	0	5	3	10	13	31
Grouped Frequency Responses	0	8	9	19	26	62
Percentage or Normalised Ratings	0	13	15	31	42	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Trade Openness of the economy" = (0 x 1) + (13 x 2.46) + (15 x 3.12) + (31 x 4.33) + (42 x 5) = **419**						

FDI Incetives offered by the Swaziland government

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C6	2	7	13	9	0	31
C10	0	4	5	15	7	31
Grouped Frequency Responses	2	11	18	24	7	62
Percentage or Normalised Ratings	3	18	29	39	11	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "FDI Incentives offered by the SD govt" = (3 x 1) + (18 x 2.46) + (29 x 3.12) + (39 x 4.33) + (11 x 5) = **361**						

Return on Investment

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C3	3	10	10	8	0	31
C17	3	2	7	12	7	31
Grouped Frequency Responses	6	12	17	20	7	62
Percentage or Normalised Ratings	10	19	27	32	11	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Return on Investment" = (10 x 1) + (19 x 2.46) + (27 x 3.12) + (32 x 4.33) + (11 x 5) = **339**						

Economic Stability

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C14	0	1	3	15	12	31
C18	0	3	6	13	9	31
Grouped Frequency Responses	0	4	9	28	21	62
Percentage or Normalised Ratings	0	6	15	45	34	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Economic Stability" = (0 x 1) + (6 x 2.46) + (15 x 3.12) + (45 x 4.33) + (34 x 5) = **426**						

Human Capital Development

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C1	1	3	21	1	5	31
Grouped Frequency Responses	1	3	21	1	5	31
Percentage or Normalised Ratings	3	10	68	3	16	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Human Capital development" = (3 x 1) + (10 x 2.46) + (68 x 3.12) + (3 x 4.33) + (16 x 5) = **333**						

Political Stability

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C11	2	3	3	16	7	31
Grouped Frequency Responses	2	3	3	16	7	31
Percentage or Normalised Ratings	6	10	10	52	23	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Political Stability" = (6 x 1) + (10 x 2.46) + (10 x 3.12) + (52 x 4.33) + (23 x 5) = **397**						

Respect of the Rule of Law

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C5	0	2	4	12	13	31
Grouped Frequency Responses	0	2	4	12	13	31
Percentage or Normalised Ratings	0	6	13	39	42	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Respect of the Rule of Law" = (0 x 1) + (6 x 2.46) + (13 x 3.12) + (39 x 4.33) + (42 x 5) = **433**						

Specific Location Advantage

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C21	0	7	15	6	3	31
Grouped Frequency Responses	0	7	15	6	3	31
Percentage or Normalised Ratings	0	23	48	19	10	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Specific Location Advantage" = (0 x 1) + (23 x 2.46) + (48 x 3.12) + (19 x 4.33) + (10 x 5) = **339**						

Flexibility of Labour Laws

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C19	1	2	12	7	9	31
Grouped Frequency Responses	1	2	12	7	9	31
Percentage or Normalised Ratings	3	6	39	23	29	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Flexibility of Labour Laws" = (3 x 1) + (6 x 2.46) + (39 x 3.12) + (23 x 4.33) + (29 x 5) = **383**						

Export Partners

	Frequency Distribution of Satisfaction Ratings					Total
	1	***2***	***3***	***4***	***5***	
C20	0	3	9	15	4	31
Grouped Frequency Responses	0	3	9	15	4	31
Percentage or Normalised Ratings	0	10	29	48	13	100
Correspondance Analysis Rescaled Values of Categories	***1***	***2.46***	***3.12***	***4.33***	***5***	
Rank Score for "Export Partners" = (0 x 1) + (10 x 2.46) + (29 x 3.12) + (48 x 4.33) + (13 x 5) = **388**						

APPENDIX D:

Frequency count for questions B23, C23

Question B23. Top three most important factors for your continued stay in Swaziland

Factor	Frequency	Ranking
B11	19	1
B20	16	2
B4	13	3
B19	7	4
B12	6	5
B14	6	5
B16	6	5
B3	4	8
B9	3	9
B10	3	9
B13	3	9
B18	3	9
B7	2	13
B8	2	13
B1	0	15
B2	0	15
B5	0	15
B6	0	15
B15	0	15
B17	0	15
B21	0	15

Q.C23 In your opinion what is the single most important factor that makes SD an attractive host for FDIs?

Factor	Frequency	Rank Order
C11	13	1
C20	10	2
C3	3	3
C14	3	3
C4	2	5
C1	0	6
C2	0	6
C5	0	6
C6	0	6
C7	0	6
C8	0	6
C9	0	6
C10	0	6
C12	0	6
C13	0	6
C15	0	6
C16	0	6
C17	0	6
C18	0	6
C19	0	6
C21	0	6

APPENDIX E

Rank Scores Obtained by Algorithmic Method of data analysis

Determinant	Importance Rank Score
Political Stability	0.64
Overseas export partners	0.50
Return on investment	0.40
Flexibility of labour laws	0.29
Trade openness of the economy	0.26
Economic stability	0.24
Physical Infrastructure development	0.22
Independence of the judiciary	0.17
FDI incentives by government	-0.16
Human capital development	-0.54
Location advantage	-0.80
Size of local and regional markets	-0.87

Determinant	Satisfaction Rank Score
Independence of the judiciary	0.68
Trade openness of the economy	0.56
Economic stability	0.53
Political Stability	0.22
Flexibility of labour laws	0.19
Overseas export partners	0.11
Physical Infrastructure development	-0.08
FDI incentives by government	-0.10
Human capital development	-0.17
Location advantage	-0.29
Return on investment	-0.52
Size of local and regional markets	-0.63