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Student Details

Surname	Fredekind	Given name	Janet
Student Number	1515901	Email	J.R.Fredekind@wlv.ac.uk

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South Africa & Ethiopia

An examination of the determinants of inward FDI and the attractiveness of South Africa comparatively to Ethiopia.

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Abstract

Over the past 70 years foreign direct investment has been desired for by many countries in the world. Africa has never caught up on other continents in the world in regards of attracting inward FDI; some countries have been able to draw the attention of investors. Especially the Sub-Saharan area had difficulties to attract investors, nevertheless South Africa belongs to the same region and has one of the biggest economies and receives one of the biggest share of FDI on the continent. The interest of this study lies in comparing two economies from the sub-Saharan area that are in different development stages to try and highlight the determinants that can enhance the locational attractiveness. The countries chosen in this study are South Africa and Ethiopia. The need to evaluate how one country performs differently to another is underpinned by the need of understanding what theories in regards to motivations for foreign firms to explore foreign markets as well as empirical studies that explore macroeconomic determinants. Furthermore, two case studies that concentrate on the different determinants such as exchange rate, GDP, labour cost, trade barrier, institutional incentives and many more have been represented in data with further literature. Those case studies create a common ground to compare both countries in regards to their qualities, concluding that South Africa performance is significantly better.

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List of Acronyms

OFDI- Outward Foreign Direct Investment

IFDI- Inward Foreign Direct Investment

FDI- Foreign Direct Investment

MNE- Multinational Enterprise

USD- United States Dollar

GDP- Gross Domestic Product

OSA- Ownership Specific Advantages

LSA- Location Specific Advantages

PLC- Product Life Cycle

US- United States

UK- United Kingdom

SME- Small Medium Enterprise

OLI- Ownership, Location and Internationalisation (Refers to Dunning's theory)

IDP- Investment Development Path

EMNE- Emerging Multinational Economy

DM- Domestic Market or Dragon Multinationals

LLL- Linkage Leverage Learning

FM- Foreign Market

FSA- Firm Specific Advantages

CSA- Country Specific Advantages

SSA- Sub-Saharan Africa

IMF- International Monetary Fund

EIA- Ethiopian Investment Agency

EPA- Ethiopian Environmental Protection Authority

JV- Joint Ventures

ETB- Ethiopian Birr

NBE- National Bank of Ethiopia

BRICS- Brazil, Russia, India, China and South Africa

ZAR- South Africa Rand

ANC- African National Congress

GEAR- Growth, Employment and Redistribution

GATS- General Trade in Service

TRIPS- The Agreement on Trade-Related Aspect of Intellectual Property Rights

TRIMS- The Agreement on Trade-Related Investment Measures

WTO- World Trade Organization

B-BBEE- Broad-Based Black Economic Empowerment

DTI- Department of Trade and Industry

TISA- Tax Incentivised Savings Association

CPI- Corruption Perceptions Index

Chapter 1

Introduction

FDI can influence an economy deeply, its impacts can be positive or negative but first a country has to be able to grasp the attention of investors to even be considered and to be seen as a potential for gain. The developed world such as most countries in Europe are desired by many that wish to see a similar economic growth and a rise in income change, such as Africa. Only a handful of African countries have managed to get some attention, but how is it possible that only specific countries in a region receive FDI and others are completely ignored?

Historically FDI has the image of promoting economic growth and development as well as further financial stability which many developing countries are seeking after, given they have established the right policy framework. Since the channels and arrangements of financial transactions have evolved so drastically through the rapid development of MNE's, financial measures and benchmarks had to and will be redefined over and over. Only then, policy makers can rely on FDI statistics, which are fundamental to ensure a higher attractiveness for their economies to receive inward FDI (OECD, 2008). Policy makers in developing countries face further complications in pursuing locational attractiveness due to the evolvement of globalisation and the consequential changes of determinants for FDI in developing countries; even though MNE's have shown more willingness and higher interests to invest into developing countries since the FDI boom in the 1990's (Tungodden, Stern and Kolstad, 2003).

FDI activity in Africa and their performance

For many reasons Africa had and has difficulties to attract inward FDI in comparison to other continents. To begin with Africa has an image issue which is mostly associated with famine, poverty, disease, political instability, corruption and other low levels of standard. Even though each of those words could have a correlation with an African country, it does not mean all of the associations can be related to the continent as a whole. Unfortunately, there is the misconception of seeing Africa as one rather than for its 50 countries of which many have re-established and liberalised their economies and improved legal regulatory frameworks to welcome inward FDI. Even when proven that investment in Africa tend to be more profitable compared to most other locations, the false image has made it difficult for investors to consider African economies for investments (UNCTAD, 1999). It seems as African countries have come a long way since the after effects of colonialism and its resulting nationalism towards the west after the 1960's and 1970's. In that time Africa has strengthened their reluctance to open borders and their willingness to amend policies to allow inward FDI as independence gained momentum. Despite the fact that Africa received the least FDI with $51 billion (A.T. Kearney's Foreign Direct Investment Confidence report, 2017), the sub-Saharan area only received $31.9 billion of it (World Bank, 2019). South Africa and Nigeria have been early recipients for FDI due to both countries riches in terms of natural resources. Already in 1970, South Africa which is known for diamonds, platinum and a strong local market received 260 million USD and Nigeria is Africa's leading country for crude oil, received 205 million USD, while other African countries have received significantly less or have not received any FDI (World Bank, 2019). In comparison the world in 2017 has a GDP of 80 trillion USD while the whole SSA concludes to 1.6 trillion USD which is as much as Canada alone accumulates (World Bank, 2019). In 2006, 23 countries in the SSA region had a GDP less than 3 billion USD therefore it can be suggested that FDI does not concentrate in SSA's natural resource-poor regions (Asiedu, 2006).

South Africa and Ethiopia

Despite all political shocks and difficulties which both countries experienced over their time of existence, South Africa and Ethiopia became democratic and formed democratic governments in the time of 1993-1995. While both economies are considered to be in the range of the 5 best economies in Africa, South Africa until today is the most attractive country for FDI investment in Africa and 25th in the world (A.T. Kearney's Foreign Direct Investment Confidence report, 2017). South Africa is considered to be the gateway of Investments for Africa due to their yield from improvement on infrastructure, adjusting policies and regulations to welcome investment and a social evolvement. Nevertheless South Africa is showing major slides in their inward FDI since their investments have decreased by around 34% from 2016 to 2017 (World Investment Report, 2018). Meanwhile the Ethiopian economy is emerging and the GDP growth for the past decade has an average of 10% (IMF,2018). The reasons for that are large infrastructural projects that Ethiopia is undertaking such as the Grand renaissance Dam and other changes in the industrial activity as well as the increased manufacturing, (We Forum, 2018) which resulted in an increased interest in investing into the Ethiopian economy and an FDI increase by 27.6% (IMF, 2018). Despite the improvement in specific sectors there is much work ahead to match South Africa's successful and attractive economy. Although Ethiopia's economy stabilised comparatively to its prior economic outlook, its population is suffering from regular famine and drought periods which requires political and financial attention.

Aims and objectives

This research aims to examine the determinants and their impacts on enhancing a country's FDI attractiveness, comparing South Africa and Ethiopia and their performances on attracting inward FDI.

- To assess and criticize theories and empirical studies that explain different determinants as deciding factors for FDI activity.
- Gather data upon determinants for each country and present them in form of case studies.
- To compare both countries with relevance to the case studies and literature and highlight their differences in attraction

The outcomes of the comparison will be able to generate suggestions for the less attractive country on which determinants it should be concentrating on reflective of the country that has better performance.

Chapter 2

Literature review

The literature review will be conceptualising determinants of FDI by presenting appropriate definitions and a historical timeline of theories which utilise determinants and motivations of FDI. The academic theories are multidimensional and therefore will need to be assessed and criticised to indicate their literary gaps. Furthermore, case studies will be applied to point out the issues the literature constitutes.

In order to focus on determinants of FDI, the term itself should be introduced. Foreign direct Investment is believed to be one of main connections between economies and brought economic globalisation through cross-border capital flows to a new level (I. Pekarskienea, R. Susniene, 2015). "*Foreign direct investment is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy*" (OECD, 2002). Before further assessing which determinants might spark a lasting interest in a host enterprise, it is important to mention that a numerical guideline is necessary to determine if FDI indisputably takes place. "Accordingly*, direct investment is considered evident when the direct investor owns directly or indirectly at least 10% of the voting power 10 of the direct investment enterprise. In other words, the 10% threshold is the criterion to determine whether (or not) an* *investor has influence over the management of an enterprise, and, therefore, whether the basis for a direct investment relationship exists or not*" (OECD, 2.3.2 §31, 2002). Therefore it could be said that most direct investment enterprises are subsidiaries (controlled by more than 50%), associates or branches (controlled by 10%-50%), or circumstantially enterprises that have the same hierarchical ownership which is directly or indirectly influenced.

Furthermore, FDI of multinational firms can be divided into two types, efficiency (vertical) or market seeking (horizontal). Vertical FDI can be classified by firms that move only a part of their supply or production chain into the host economy while other processes might stay in the home economy or is split further into other economies. The 'Proximity-concentration trade off theory' implies that MNE's that look for cost mitigating factors in terms of geographical locations for their production line incline towards vertical FDI. Comparatively, if the trade cost in the host economy is considerably higher MNE's incline towards horizontal FDI (Helpman, 1984, p.452-455). In other words, horizontal FDI takes place if trade tariffs and or transportation cost are high; MNE's decide to mirror their activities in the host market to serve the foreign market more cost efficient.

Traditional theories

MNE's have different motivations for FDI, many academics have assessed potential determinant that lead to attractiveness. One of the earliest theories introduced by Hymer in 1960, in comparison to previous theories he identified the evolvement of MNE's in foreign countries. He explained that in fact OSA's can overcome LSA's as domestic firms in the same location would have the same LSA's; the OSA would give a firm a competitive advantage. Hymer summarises MNEs ownership advantages to be unique capabilities such as knowledge, technology, managerial skills and better access to capital and government imposed market distortion (Nayyar, 2014). He argued that the market imperfections motivate FDI due to advantages and conflicts (Hymer, 1976). Most imperfections appear in markets that are dominated by one or few large firms such as in monopolistic and oligopolistic markets (Badayi, 2017). Therefore, Hymer found that MNEs are encouraged by the need to mitigate international competition, potentially prevent other firms from entering the market and benefit from the advantages of such market (Ietto-Gillies, 2012). One can argue that this does not explain the decision where and when FDI is going to occur, having ownership advantages such as technology and knowledge do not equate to cross-border investments as licensing and exporting could constitute similar advantages (Robock and Simmond, 1983). His views are pinned on FDI between developed countries. Also, Hymer does not incorporate a broad investigation upon the differentiation of transactional and structural cost (Dunning and Rugman, 1985).

Vernon's PLC theory resulted from the post-World War 2 rapid evolvement of MNEs and the changes of trade flows and the need to explain those (Leontief, 1966). His model explains that a firm' production goes through a 4 stage cycle which includes innovation, growth, maturity and decline (Vernon, 1966). His research revolved around a US multinational firm and their response of an emerging competition and the maturity of their product. The bases for the first stage are technologies that build the essential for the progress of new products, ones these are produced and sold successfully and the demand is rising the second stage suggests growth, the development of exports and entrance into new markets. The crucial point revolves around the maturity stage, the penetration of new markets and the establishment of production facilities to match increased demand in the host economy introduces competitors. In Vernon's research European firms have started to mirror the US MNE's products, this process leads to the decline stage as products are standardised and production processes lose their exclusivity (Nayak & Choudhury, 2014). According to Vernon's theory, this stage encourages investment to move to a new location where production cost are even lower, this transforms the exporter to an importer in order to stay competitive. Therefore, the now imported product by the home economy will, in the decline stage be discontinued and replaced by an innovative product which enters again the first stage of the PLC. Nevertheless it can be argued that Vernon's PLC suits industries that base innovation on technology and does not apply well to other industries. Furthermore, it does not consider ownership based FDI determinants but rather explores the aspect of location in regards to a firm’s production facilities (Makoni, 2015). Vernon mentioned that FDI will occur when the host economy market is big enough to hold the interest of the production of MNE’s nevertheless; it does not identify the turning point of when investments in the foreign markets will generate a lucrative amount of sales and return (Nayak & Choudhury, 2014).

The Uppsala internalisation process model sprung from various other works including Penrose (1966), Aharoni (1966) and was based on the ‘Behaviour of the Firm theory’ from Cyert and March (1963) and supports stage theory. Established by Johanson and Vahlne (1977) at the Uppsala University (Sweden) it can be seen as a rational model of internalisation. Their theory underlines that a firm begins internalisation in a host economy with a low psychic distance. Psychic distances is defined as “*factors that make it difficult to understand foreign environments*” (Johanson, 2009), those factors can relate to a countries culture, language, political system, level of education, level of industrial development etc. . and it is found to have an influence on the decision of a location as well as on the mode of entry. It suggests that a firm will also undergo changes, through accumulation of experiences and knowledge of the market, it will lead to a higher commitment which leads to current market activities and result in market related commitment. The market knowledge is acquired through a gradual entry to the foreign market as the theory describes, the firm would first have an intermediate in place and through growth the intermediate will be substituted by an firm owned sales organization until the implications of production infrastructure in the host economy to overcome trade barriers and mitigate uncertainty (Johanson, 2009). Application of this model questions the successfulness of this model, as it does not entail failure of firms to get to the maturity stage and if they do, there is evidence from Canadian retailers where only 22% of the companies were successful in the US even though arguably psychic is low (O’Grady & Lane, 1996). Johanson himself questions the applicability of the Uppsala Model on a global scale since his and Vahlne's work is based on observation of Nordic firms (Johanson, 2009). With the introduction of new venture internalisation such as born global and born-again global firms which are considered SMEs as they are smaller than MNEs but comparable in characteristics, stage theories such as the Uppsala model have been questioned (McDougall & Oviatt, 1996). Most born global and born-again global firms generate most of their sales abroad rather than in the domestic market and they explore international markets from "birth" (Hashai, Almor, 2004). This would suggest that in fact firms could jump stages such as domestic market growth and maturation (McDougall & Oviatt, 1996).

Aliber (1970) has proposed a theory that explains FDI from a currency based approach which he claims is an alternative FDI theory (Ietto-Gillies, 2007). It focuses on financial flows of monetary capital through portfolio investments and fiscal systems. He states that economies with a strong currency would rather invest in economies with significantly weaker currencies in order to benefit from market capitalisation rate (Nayak, Dinkar and Choudhury, 2014). Criticisms, point out that, in fact Alibers theory is based on developed countries investing in a weaker financial system but does not apply from a developed economy perspective due to strictly regulated foreign exchange and poor or non-existent financial markets (Lall, 1976). Also Alibers theory does not explain how FDI flows from developed to developed economy (Nayak, Dinkar and Choudhury, 2014), nevertheless it there is plenty of FDI activity between economies that have relatively similar strengths of currency i.e. dollar, pound, euro. Another criticism of Aliber's theory point out that this theory cannot be judged by the same aspects as other theories, as it does not incorporate aspects that have been covered by previous theories. Additionally it only assesses financial flows in regards to monetary assets but does not mention the aspect of why MNE's produce in foreign markets (Dunning, 1988).

It is perceived that MNEs tend to gravitate towards location with a favourable institutional environment where they can gain better firm-specific advantages therefore, many theorists have explained and written about institutional theory.

Nevertheless since the world *institution* itself can incorporate many different aspects; it is difficult to consider all aspects in its entirety (Kersan-Škabic, 2013). North (1990, p.3) defines institution as " the **rules of the game** in a society", pointing out the formal rules in form of legal, political and economic and informal rules in regards of norms of behaviour, codes of conduct and conventions, in his 'institutions-as-rules' approach (Greif & Kingston, 2011). A further evaluation of institutional theory acknowledges that institutions are multifaceted. Institutions were divided into 3 categories to bring structure to the variety : regulative, cognitive and normative, also known as the 'Three Pillars of Institutions' (Scott,1995). Kostanova (1997) believes that the 'Three Pillar of Institutions' approach is able to generate better results of measures of the national environment. She evaluates that Hofstede's (1980) and Triandis (1994) concepts of assessing a firm's choice of countries by characterising the natural environment are far too general. She argues that the aspect of institutional environment analyses countries more issue specific, therefore she utilised those categories of cognitive ("*cognitive structure and social knowledge shared by the people in a given country"*), normative ("s*ocial norms, values, beliefs and assumption of human nature and behaviour that are socially shared and carried by individuals*") and regulative ("*laws, rules and national environment specific behaviours*") dimensions to create institutional profiles country specific (Kostonova, 1997). Another empirical study concentrated on the quality of the institution and concentrated on factors such as the degree of corruption, laws and regulations and property rights to conclude major economic growth through FDI in transitional economies (Grogan & Moers, 2001). They result that institutional quality is inevitably the most important factor and can therefore influence investors decisions and raise FDI attractiveness in the host economy, although their results were vacuous in regards to economies in different development stages. Another approach of institutional theory approaches 'Organisational Isomorphism' which describes changes in the *"organisational structures through institutional constraints imposed by the state"* (DiMaggio & Powell, 1983). They propose three paths which explain how firms are becoming more and more alike. When MNEs enter the new marketplace in the host economy they imitate comparable processes to domestic firms through coercive, normative and mimetic isomorphism. Hereby, coercive isomorphism relates to political influences that evoke regulatory and structural adaptation, while normative isomorphism is linked to professionalisation and can reflected in the inter-organisational network or the superiority of higher educational achievers in the firm. Mimetic isomorphism is simply a dirative from uncertainty and therefore, imitates competition (DiMaggio & Powell, 1983). Government's desire to enhance inward investments to hedge against risk through short-term encouragements such as tax etc. . Wheeler and Mody (1992) have completed an empirical work to assess factors that most likely support 'International investment location decisions', to prove the qualitative arguments. Their work consisted of an complex index of risk factors and concentrated on US. firms and specified it to the electronics sector due to its high risk sensitivity and porous data on other sectors. The result shows the factors corporate tax, OPEN (openness of the economy) and RISK (socio-political conditions) show only little importance and has rejected those variables. (Wheeler & Mody, 1992). Wei's (2000) empirical work concentrates on taxation and corruption and its impacts on a US firms FDI activity. His paper concludes that both a rise in taxation in the home economy would have the same effect as high corruption level in host economies (Wei, 2000). His previous study as well as the latter one indicate that once corruption is factored as a single element it has in fact negative impacts on FDI flow (Wei, 1997;2000). Concluding from previously mentioned positive effects on FDI flows from institutional incentives such as those concluding in growth and other negative incentives pointed out by empirical work from Wei (1997;2000), the results of Mody & Wheeler (1992) suggest that negative and positive institutional determinants cancel each other out to result in minor effects on FDI activity.

One of the most discussed and acknowledged FDI theory is probably Dunning's 'Eclectic Paradigm' also known as OLI theory (Nayar & Choudhury, 2014). He extracted a list of factors that could motivate FDI flows through the activities of MNEs by incorporating existing theories on FDI. The major contribution by Dunning's eclectic paradigm to the existing literature on FDI was to combine several complementary theories, and identify a set of factors that influence the activities of MNCs. Dunning's OLI theory proposes that companies are looking for

Ownership, **L**ocation and **I**nternalisation advantages before entering a new market. Proposing that companies that seek FDI would rather entre economies where they feel superior and have lower regulation standards in place (Dunning & Landun Ch.3, 2008).

- The Ownership advantages can be described as the value added process within the firm, those are described as unique capabilities and assets possessed only by the firm and are not available to competitors (Dunning, 2001). Those assets could be tangible or intangible and are specified to: natural resources, capital and human resources, technology, information, management skills, marketing skills and entrepreneurial skills (Dunning, 1993).
- The Location advantages are specified to concentrate on the availability certain assets that can be found or are particular to a country, region, location. Such advantages could be: cultural, legal, political and institutional environment and includes variables such as labour costs, tariff barriers and the presence of competitors or agglomerative economics (Dunning, 1993; 2001). It can be argued that the location aspect of the paradigm is of great aspect for a developing country.
- The Internalisation advantages revolve around a firm's diversification of activity suiting the foreign market which could reduce innovation, production and transaction costs and encourage FDI flows. It could prevent loss of human capital to competitors and could concentrate on contractual aspects (Dunning & Landun, 2008; Dunning, 2001).

Ownership and Internalisation advantages are firm specific, while Location advantages are depending on the country (Buckley and Casson,1976). Since, it is a considerably important factor; many countries that seek FDI take it upon themselves to enhance locational advantages.

In accordance to Dunning’s applications of the paradigm, firstly it concentrates on evaluating the intentions MNEs seeking FDI activity. It resulted that a country’s stage of development and their changes in international position is relevant to assess the type of FDI that will take place. They differentiated into resource, market, efficiency and strategic asset seeking. In addition to micro-level determinants his theory ties in macro-level determinants (Dunning, 2001).The main criticism about Dunning's theory revolves around the fact it includes too many variables and therefore, loses its practicality (Nayak & Choudhury, 2014). The dynamics of MNE’s and the resulting criticisms of the application of the OLI theory upon new scenarios, inclined Dunning to extend his theory. In Dunnings (2001) later work he defends his eclectic paradigm by suggesting that there is a necessity for the amount of variables due to the different types of FDI. Furthermore, he mentions that even though his theory has gaps, no other theory has ever managed to incorporate all aspects to explain FDI decisions (Dunning, 2001). The main issue with Dunning's OLI theory is the fact that it does not explain existent FDI flows from inferior economies (South) such as emerging markets to developed economies (North).

Modern theories

Emerging markets have received much attention in regards to IFDI. Some have received enough investments to progress into OFDI themselves. Dunning model IDP model suggests that if a country does not reach a higher level of development, OFDI will not take place (Dunning, 1996). Other countries are encouraged by governmental policy changes. Empirical studies show that traditional theories can be applied to South-South FDI activity such as observed in China, their OFDI was embedded by introduced policy changes (i.e. ‘go Global’) by the government. This institutional push has lured Chinese MNEs to participate in OFDI (Buckley, 2017). China's choice of the following FDI locations can be linked to the impacts of the Uppsala Model suggested psychic closeness: Asian area, South America and Africa (Bromkvist & Drogendijrk, 2012). Nevertheless, emerging markets such as China, also invest upward into developed markets.

In addition to the previously mentioned ‘born-global’ and ‘born again global’ multinationals, Mathews (2006) defines a new type of multinational called ‘Dragon

Multinationals'. This term describes EMNEs that are able to overcome inefficiencies through strategies that enable fast catch-up to developed world MNEs, from the Asia-Pacific area (Mathews, 2006). Mathews argues that, the strategies of Dragon multinationals considers various aspects such as, joint ventures to benefit from companies that are already connected in global economies (**L**inkage), gaining access to resources which are not present in the DM and securing resources from linkage (**L**everage) or acquire comparative advantage in order to be competitive in an environment, where other firms have more market specific knowledge, through repeating linkage and leverage learning (**L**earning). The LLL framework concentrates on the internalisation of a company and concentrates on Multinationals that seek a strategy to catch up on well-established global firms such as EMNEs (Mathews, 2017). Luo and Tung introduces a theory that is relatable to the LLL framework, it suggests that EMNEs use OFDI to mitigate exposure market and institutional force and to gain resources they need to become more competitive in the DM as well as the FM against global firms (Luo & Tung, 2017).

It is believe that institutions matter independently of economic and growth related FDI activity, nevertheless Benassy-Quere argue that institutional quality is more important to attract FDI (Benassy- Quere et al., 2007). Empirical studies of institutional aspects impose that EMNE's can draw advantages in the foreign market by not having FSAs and rely on CSAs (Bhaumik, Driffield & Zhou, 2016). Cantwell and Bernard (2008) The motivations of EMNEs seeking foreign markets could be influenced by the growing competition in the DM and engaging in FDI in the developed world might build their brand, image, and structure through coercive isomorphism and established themselves as a global player, which could in the long run raise capabilities and enhance performance in the competitive FM and DM (Sauvant, 2008,Ch. 5 pp. 55). Nevertheless, it does not necessarily mean that all EMNEs are able to succeed as the previous institutional structure might be difficult to change in the foreign.

Empirical Literature on South Africa and Ethiopia

Over the years, empirical studies and literature has pointed out the necessity of African countries attracting more FDI. Studies have shown that "*large local markets, natural resource endowment, GDP per capita, good infrastructure, low inflation, an efficient legal system and good investment framework*" lead to FDI activity in Africa (Asiedu, 2006). The growing problem in the SSA region stems from the scarcity of capital in addition to low levels of savings. Other sources of capital are almost impossible to reach, only very few countries are able to access external capital and official loans from the World Bank and the IMF have been decreasing. Therefore, for many countries in this region FDI has become the only mean to balance out saving levels and a platform for gaining financial means (Asiedu, 2001). Most countries in the SSA region receive either resource or efficiency seeking FDI as they are relatively small and poor, that excludes South-Africa.

Countries with resource based FDI inflows are considered to have high risk to resource price variances and are less beneficial, therefore such countries should consider introducing precise development strategies to utilise sustainable profits and development from their natural resources (UNCTAD, 2017).

Asiedu has concluded in her empirical work that compared to non-SSA developing countries, countries in the SSA region experience the "*Africa effect*". Determinants with the same value received different dynamics of FDI depending on the location (Asiedu, 2001). Looking at the attractiveness factors (Appendix 1) and the outcomes of Asiedu's study, country leaders and policy makers in the SSA should not mistake overall favourable determinants as guidelines for future implications (A.T. Kearney's Foreign Direct Investment Confidence report, 2017). SSA related studies have also show that the quality of institutions is of high importance, better governance and less corrupt environments and effective legal structures show a positive effect on FDI (Rodriguez-Pose & Cols, 2017). Openness of trade also have a positive impact, nevertheless other known determinants of FDI in developing countries such as infrastructure development and higher return on capital have no effect on FDI activity in the SSA region (Asiedu, 2001), she suggests that a regional economic cooperation might mitigate countries political disruptions and create a common grounds on policies to attract more investors to the region (Asiedu, 2006). There has been numerous studies that have incorporated FDI determinants in the SSA, either those studies had problems with data collection or simply did not incorporate either Ethiopia or South Africa in their collection of countries.

South Africa

"FDI played a crucial role in the earlier development of the South African economy" (Gelb & Black, 2004:177). South Africa receives mostly resource and market-seeking FDI; nevertheless it has a long history of FDI and has gone through all types of FDI while going through the development stages. Firstly it received resources-seeking FDI because of agriculture exports and evolved into mining activities, after that it developed manufacturing and received efficiency seeking FDI until market size expanded and market-seeking FDI occurred (Gelb & Black, 2014). A study has evaluated the effect of macroeconomic determinants of FDI in South Africa including the pre and post-crisis time frame (1994-2016) and results have shown that only inflation rate had a negative impact on FDI flows while GDP per capita, government size, real interest variable and terms of trade have responded positively. The study highlighted the positive impact of government size and suggest that government financial implication on fiscal policies are significant to improve FDI attractiveness for South Africa (Dondashe & Phiri, 2018). FDI that induces economic growth was always of great importance to the South African government, historically they have implemented policies and schemes to reduce tax and import barriers to welcome FDI inflows to simplify cross-country operations and return on investment (Rusike, 2007).

Majavu & Kapingura (2016), considered similar determinants to the prior mentioned study and resulted that GDP and Openness has positive impacts while, Inflation, exchange rate, corporate tax and financial crisis had negative impacts. Their study had a similar time frame (1980-2012) and evaluate that South Africa has an issues with stagnation in therm of FDI flow. The implementation of policies could enhance the speed of economic growth which would lead to a bigger percentage of FDI inflows. The vast influence of the financial crisis, points out South Africa's financial reliance and location of FDI inflows and as well as the risk of not having sufficient domestic financial embedding (Majavu &Kapingura, 2016).

Ethiopia

Similar to other sub-Saharan countries, Ethiopia suffers from the same financial discrepancies as the gap between remaining domestic saving and GDP growth is expanding. As other countries in the region, Ethiopia is making an effort to receive more FDI inflows (Hassen, 2016). As well as other small and poor countries in the region its economy relies on agriculture and ⅘ of the countries livelihoods are utilised from the tertiary sector. The nature and determinants of FDI in Ethiopia were assessed in empirical studies by Getinet & Hirut and have taken into consideration rate of real GDP, export orientation, liberalization, macroeconomic stability, and infrastructure from 1974-2001. The empirical work concluded that, in fact "*macroeconomic stability, inflation and low level physical infrastructure"* deter inflows of FDI, while "*economic growth, openness and liberalisation"* enhance FDI activity. They suggest strengthening fiscal and monetary policy frameworks, further liberalising the economy and implementing incentives to attract investments (Getinet & Hirut, 2006). Ethiopian authorities have started to issue tax incentives to promote investments. In addition the EIA was established to support investors and assign investment procedures (Woldemeskel, 2008).

Chapter 3

Methodology

Methodology introduction

Methodology is a key part in writing a dissertation as it underpins the vital philosophical and research methods used to gather, interpret and extract knowledge. The methodology is a research strategy that details the way in which research is to be undertaken. Many factors have to come into consideration when compiling research and research methods as not all research methods suit every academic paper. In this chapter I will assess the philosophies and approaches based around the research methodology.

Research philosophy

Before I chose which philological research approach I will focus on two aspects of research philosophy, positivism and social constructivism. Positivism creates the general view that only factual knowledge is created through scientific proof, for example in data collecting and statistical analysing. This rather scientific factual approach leaves little provisions for human interests and doesn't allow other external factors to be considered such as opinion or human input. Social constructivism on the other hand argues that social reality and reflection based on personal and previous experiences allows the research to have more depth and opinion as opposed to being purely factual. Social constructivism centres itself on how we interpret and understand something allowing us to create opinion through how it is socially believed via human development.

Research Approaches

I aim to adopt two slightly different research approaches throughout my work concentrating on deductive and abductive. The deductive approach concentrating on firstly collecting data to then allows you to build an opinion. The abductive approach is very similar to inductive but outlines that you are firstly collecting the data to identify and explore the patterns in order to better the original or modify an existing opinion. The approaches will be mixed as my subject area is a comparative research but will also include with a mixed strategy pool (Appendix 3).

Research Strategies

Through my research I will be using qualitative research techniques. This technique focuses on gathering non-numerical data and theories to uncover trends in thought and opinions, enabling me to get a deeper feeling for the research which intern allows me to build and enhance my own opinion or upon existing theories. Qualitative research is almost a form of exploratory research allowing freedom of thought which ties in with my deductive and abductive research approaches. This form of research provides mostly subjective views as opposed to objective views. Even though my work will incorporate quantitative data, in form of case studies they will be evaluated subjectively. Due to the subjective nature of qualitative research processes I will have to be careful and avoid bias by being transparent and assessing more than one type of data or opinion in order to get a broader picture. In doing this I will also increase the reliability and validity of my research by comparing multiple sources to support my findings and ensuring a good comparative fit between data and theory and also showing appreciation of all aspects.

Research Method

A research method is simply a technique of collecting data in order to process it, I aim to adopt two approaches, firstly case studies and then secondly archival research which covers secondary data collection. The case studies will be presenting and analysing data in order to discover similarities and differences within FDI determinants. This method helps to explore the determinants for both countries and explain the difference within its performance by discussing each factor. I will then be using archival research as a secondary research technique, this will include the use of journals, books and papers in compiling evidence to back theories and support my own views. Throughout my research I will also take great care to address where possible any ethical considerations throughout my research and make sure the appropriate measures are taken not to offend any person or any land.

Data Analysis

Analysis of data is absolutely vital in ensuring the research is carried out to fit all the criteria stated in this methodology section. As mentioned before I will be taking a social constructivism approach which entails a lot of observation, this will take place on grounds of secondary data. To define this in relation to data analysis here states 'Observation involves the systematic observation, recording, description analysis and interpretation of people's behaviour' (Saunders et al., 2009). The use of observations in regards to secondary data however can pose a few problems, it can be very time consuming and lead to bias. Nevertheless, secondary data is a source that enables explaining and backing up of my views and opinions as this data has already been collected and analysed, these include documentaries, journals, publications and literature.

Ethical considerations

Because of the political aspects of the research and the instabilities in the countries extra care must be taken when exploring research possibilities as possible sensitive areas may become apparent. This is the main reason that secondary research will be used as this bases itself around previous research and not directly with other people. This will avoid any unnecessary uncertainties when addressing ethical consideration as indirect offense can be taken even without malice. A classic way of understanding ethical considerations is to apply the so called 'Golden Rule' as stated by (Myers, 2012) *"You should not do unto others as you would have them do unto you",* this basically implying if you are unsure then maybe you should put yourself into the other person's shoes to appreciate what another might feel.

Data collection

In addition to the gathered literature and empirical studies in the literature review, additional data will be gathered in Chapter 4. This is needed to discuss and point out the differences between both countries and will be the grounds for the data discussion in Chapter 5.

Data Limitations

My research is strictly concentrating on secondary data collection as primary data collection is not in reach. Conducting primary data from both countries of my + +research is problematic since they are reasonably far away and difficult to reach. Ethiopia specifically does not have the a constant base for communication since political and resource base problematics are in place. Beyond limitations that could occur with South Africa, conducting primary research from only one country could jeopardize the aspect of bias as the examination would be one sided. Furthermore, primary research could have been conducted from MNE's in developed countries that invest into both countries in question, however not only is there an issue with the scope of this research as a sufficient amount of companies would have to be questioned but many companies do not disclose this kind of information. Therefore I can conclude that investing time and effort in primary research would not have been beneficial but rather destructive for the clarity of this document.

Concluding Comments

The aim of the research is to be fair and lawful and to be only obtained for specific purposes of research. Making sure that the work of others remains correctly referenced and not used in a plagiarism manner by incorporating into work without acknowledgment. This is of great importance and will be avoided. This methodology and approach best encompasses the aims of answering the dissertation question, and the measures of applying research methods to this work.

Chapter 4

Case studies

Context

Before presenting the case studies it is important to present the countries that are responsible for South Africa's and Ethiopia's IFDI. Appendix 4 and 5 show FDI inflow by country, for Ethiopia and South Africa between 2001 and 2012. South Africa receives significantly more attention than Ethiopia, especially from Europe and other developed economies. Also the commitments of countries to South Africa are predominantly higher in comparison to Ethiopia's meagre inward flow. Appendix 6 (including countries from extending sources incorporating new data of countries for South Africa and older data of countries in Ethiopia), shows a concluding outlook on countries that invest into both economies with the enumeration from top to bottom indicating most to least investment weighting.

Appendix 4

SOUTH AFRICA

Table 1. FDI flows in the host economy, by geographical origin
(Millions of US dollars)

Reporting economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	8	3	..	19	..	63	47	183	64	73	346	33
Austria	1	16	13	3	6	63	103	110	..	..	..	..
Belgium	-	-50	-7	42	6	..	-	-	-507	-121	-135	-247
Brazil	-	-	-	-	-	-	-	25	-5	-	-	-
Bulgaria	-	-	-	-	-	-	-	-	-	1	-	-
Chile	-	-	-	-	-	-	-	-	-	-7	-	-
China	..	..	6	18	47	41	454	4 808	43	411	14	816
Cyprus	-	4	11	-	-	-	-	..	1	-1	-	4
Denmark	12	11	20	12	6	9	39	31	56	36	19	180
Estonia	-	-	-	-	-	1	-	-	-	-	-	-
Finland	10	5	-31	18	3	14	10	6	17	11	28	41
France	79	61	46	59	155	282	197	308	390	577	166	217
Germany	1 161	120	362	677	476	466	783	34	307	345	406	816
Ireland	-	-	-	-	-	-	-	1	-	-	-1	-
Israel	-	-	-	-	-	1	-	-	-	-	-	-2
Italy	7	1	4	43	38	18	52	24	288	-202	286	155
Japan	9	106	130	126	-22	461	79	644	544	106	462	370
Korea, Republic of	4	..	..	..	27	6	28	17	..	17	..	..
Luxembourg	-	100	-6	24	-32	212	771	766	1 473	220	-1 068	544
Mauritius	-	-	-	-	-	-	1	1	2	11	2	3
Namibia	11	5	5	29	11	10	-3	-5	-	-	-	-
Netherlands	84	59	185	-184	-	-	-	-	-	-	-	-
Poland	-	-	-	-	-	-	-2	3	-	-3	11	-
Portugal	-12	2	5	50	14	14	27	81	22	30	90	54
Sweden	30	-10	-7	36	65	29	-11	-20	-46	-102	50	14
Switzerland	32	-153	-180	-58	679	344	315	3 492	-223	122	245	129
Turkey	-	-	-	-	-	-	1	-	-	-	3	-
United Kingdom	488	3 305	3 826	7 [illegible]	3 641	5 467	3 870	2 431	1 544	5 800	5 906	8 036
United States	-86	126	202	480	82	180	1 300	386	418	379	722	260

Source: UNCTAD FDI/TNC database.

Note: Data are based on information reported by the economies listed above.

Source: https://unctad.org/en/Docs/iteiia20057_en.pdf, https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx

Appendix 5

ETHIOPIA

Table 1. FDI flows in the host economy, by geographical origin
(Millions of US dollars)

Reporting economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Belgium	..	..	..	..	..	..	..	..	..	..	1	- 1
China	-	-	1	-	5	24	13	10	74	59	72	122
France	..	..	..	1	1	1	..	..	..	..	..	..
Germany	8	- 4	9	- 1	- 2	1	5	4	3	-	-	-
Italy	-	-	-	-	-	-	-	41	32	13	9	- 39
Korea, Republic of	1	1	..	..	..	..	..	..	..	..	..	..
Luxembourg	-	-	-	- 2	-	-	-	-	-	-	-	-
Slovakia	-	-	-	7	1	-	-	-	-	-	-	-
Sweden	- 1	-	-	-	-	-	-	-	-	-	-	-
Turkey	..	..	..	..	..	..	4	6	..	..	..	1
United States	1	2	1	1	- 2	1	..	..	..	4	2	..

Source: UNCTAD FDI/TNC database.

Note: Data are based on information reported by the economies listed above.

Source: https://unctad.org/en/Docs/iteiia20057_en.pdf, https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx

Appendix 6

MAIN Investing Countries	
Ethiopia Inflows	**South Africa Inflows**
China	United Kingdom
Italy	The Netherlands
The US	Germany
Germany	China
Turkey Slovakia	Japan Australia
Saudi Arabia	Luxembourg
Panama	Switzerland
Yemen	The US
	France

Ethiopia source: https://unctad.org/en/Docs/iteiia20057_en.pdf, https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx
2004-2012
South Africa: https://en.portal.santandertrade.com/establish-overseas/south-africa/foreign-investment 2016

Ethiopia

Ethiopia is located in the north-eastern part of Africa also known as the Horn of Africa. It is landlocked and neighbours Eritrea, Djibouti, Somalia, Sudan, South Sudan and Kenya. Today, it is a federal democratic republic as its monarchy ended in 1974 and it consists of 9 regional states which are divided by ethnic territoriality (BBC, 2018). According to the World Bank in 2017 it has a population of 105 million people (Second largest in Africa) of which around 30% live below the global poverty line which has decreased by 14% since 2000 (World Bank, 2015). The official national language is Amharic which for many is their second language as Ethiopia has 83 different languages (Ethiopian treasures, 2019). Although English is the most spoken foreign language which is taught in secondary school and in most universities courses are taught in English, the level of English is in regards to other colonised African countries relatively low. Ethiopia is one of the oldest independent countries and one of the two un-colonised countries in Africa. It is a multicultural country with many different ethnic groups and strong religious beliefs (Orthodox, Islamic, Jewish), which historically has brought political unrest (commisceo-global, 2019).

Appendix 7

Source: Foreign direct investment, net inflows (BoP, current US$), Database: The World Bank. <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2017&locations=ET&start=2009>.

In terms of FDI inflows, Since 2012 around $280 million it has grown exponentially, reaching $4,017 billion (Appendix 7). The strategic sectors are leather and textile manufacturing, industry zone development, horticulture and Coffee and are believed to provide comparative advantage (Ethiopian Investment Commission, 2019). Although FDI activities are shifting toward manufacturing and service because of the countries structural transformation, Ethiopia's economy is still majorly based on agriculture and attracts resource seeking FDI with its fertile land. Also it has mining resources such as gold, potash, copper, tantalum, marble and natural gas (Ethiomarket, 2019).

Political unrest is a come and go factor in the history of Ethiopia. Geopolitically, Ethiopia's location is desirable and critical. It has diverse climate, incorporating down shrub savanna, small area of rainforest, desert and high and mild areas. Most countries surrounding have the Islam as their main believe while Ethiopia is dominated by Christianity. Somalia's al-Shabaab terrorist group is causing conflicts at the eastern border as well as the difficult situation with Eritrea. The close in proximity Suez Canal is a strategic location and a focal point for trade and military bases. In addition to external issues, ethnic and tribal conflicts result in genocides and the disappearance of population. In the last decade Ethiopia managed to mitigate corruption slightly, in the CPI it went 12 places up to rank 114 in 2018 (Transparency, 2019).

Before 1992 Ethiopia had a socialist government which strongly controlled the market and had strong military forces until it was overthrown. Since then, market liberalisation, investment and trade promotions as well as other changes have taken place. Since the 1992 Ethiopia has introduced investment proclamation and has been "*liberalising trade policy, privatisation of public sector enterprises, financial sector reforms and deregulation of prices and exchange rates controls*" (UNCTAD, 2002). Support systems and institutions for investment and innovation have been established of which the Ethiopian Investment Authority is the major institution for FDI inflows. Nevertheless other sector specific governmental and private institutions were established such as the Ministry of Agriculture, Trade and Industry, The Ethiopian Tanner Association, The Quality and Standards Authority of Ethiopia, The Productivity Improvement Centre and the Leather and Leather Products Training Development Institute. The EIA and the EPA have been able to change regulatory and policy restrictions for investments but there are still a number of barriers that complicate investments which would better the openness of the country. For example the minimum capital investment requirements are much higher for foreign investors than for domestic ones as well as the segregation of mode of entry for domestic and foreign firms and bureaucratic and administrative barriers which increase cost for FDI. JV’s are only possible for investors that are from the same country of origin or foreign investors with a higher cost requirement. The investment proclamation also introduces “*duty-free entry of most capital goods, a cut in the capital gains tax, inclusion of additional sectors such as health, education, tourism, consultancy services in the incentive scheme”* (UNCTAD, 2002).

Appendix 8

Source: GDP Growth (annual%): Database: The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=ET&start=2002>.

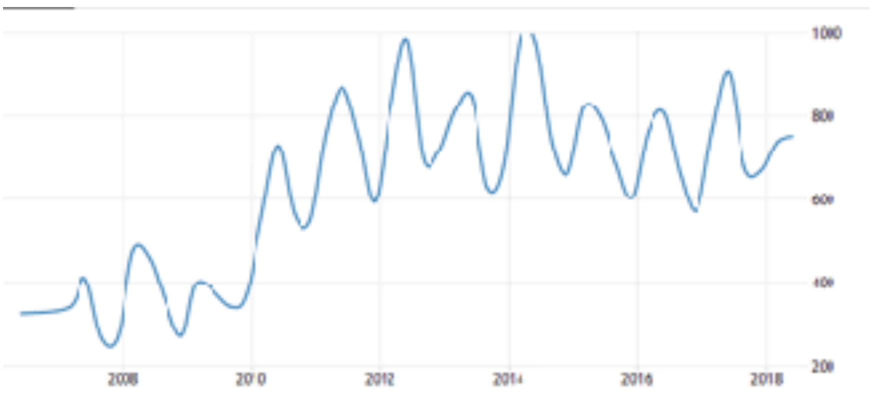
Ethiopia's economy is considered to be one of the fastest growing economies, since 2004 until 2017 the annual GDP growth per year has been consistent between 8.6% and 13.5 % with small volatility (Appendix 8). Even though GDP growth is high, the GDP in USD is relatively low (Appendix 9).

Appendix 9

Source: GDP (current US$). Database: The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=ET&start=2004>.

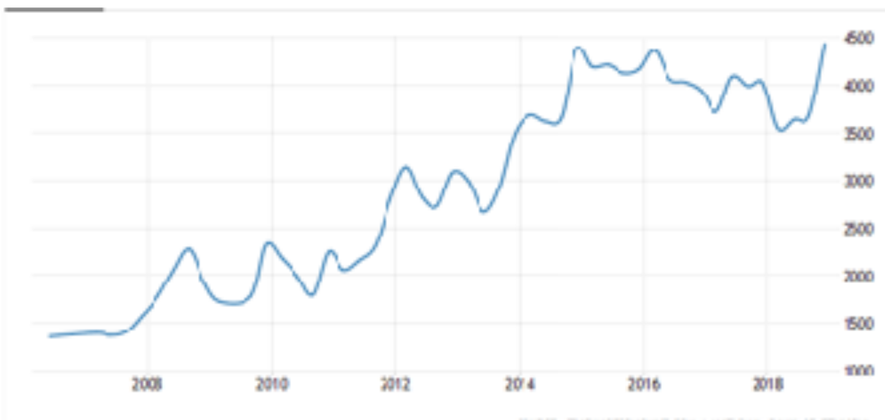
Between 2004 and 2011 GDP rose by $21billion and reaches a new high of $ 80.5 billion in 2017 (Appendix 9). In around 2004, 45 % of the GDP derived from agriculture, the rest derived from manufacturing, mining, trade, tourism, construction, service and others (Getinet & Hirut, 2005). GDP per capita behaves similarly; it grew by 5.6% from 2004 with $136 to $767 in 2017 (World Bank, 2019).

Appendix 10



Source: Exports in US dollars. Database: Trading Economics.
<https://tradingeconomics.com/ethiopia/exports>.

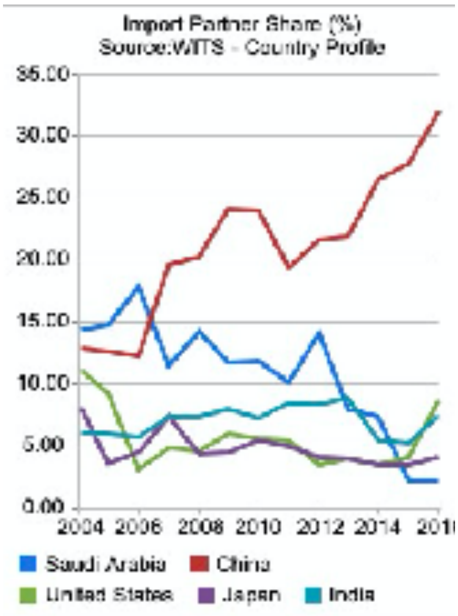
Appendix 11



Source: Imports in USD. Database: Trading Economics.
<https://tradingeconomics.com/ethiopia/imports>.

In regards to Ethiopia's Imports and Exports, there is a strong deficit to observe as imports outgrow exports. Exports are lowest 2007/8 and conclude to $265.90 million and highest from 2014-2015 conclude to $984.80 million (Appendix 10). Gold and coffee make up 21% and 19% of overall exports (trading economics, 2019). Imports are lowest in 2007/8 with $1.36 billion and grow exponentially until 2014/5 and reach their highest between 2018/9 with $4.44 billion (Appendix 11). The negative Balance of Trade create contribute to the negative current account (trading economics, 2019). In 2016/17 Ethiopia's major export destinations were 37% Asia of which 20% to China, 32.4% Europe and 21.5% Africa. Many US based companies in the UAE use Dubai as an export destination when doing business with Ethiopia (export.gov, 2018).

Appendix 12



Source: Ethiopia(excludes Eritrea) Import Partner Share from By Country and Region, in % 2004-2016. Database: World Integrated Trade Solution. <https://wits.worldbank.org/CountryProfile/en/Country/ETH/StartYear/2004/EndYear/2016/TradeFlow/Import/Partner/ALL/Indicator/MPRT-PRTNR-SHR#>.

Ethiopia's main import partner share concludes, that China is has the biggest share in 2016 with 30%, Saudi Arabia, United States, Japan and India import shares do not exceed 10% each (Appendix 12). In 2017 Ethiopia's main exports destinations have been China , Switzerland, the US, the Netherlands and Germany (Atlas Media, 2019). As observed main trading for imports and exports is China, this is correlated with Chinas policy implementation by their Ministry of Foreign affairs in 2006 which concentrates on bilateral trade with Africa (UNCTAD, 2005).

Appendix 13

Source: XE Currency Charts: USD to ETB. Database: XE <https://www.xe.com/currencycharts/?from=USD&to=ETB&view=10Y>.

In regards to Ethiopia's exchange rate, the USD has been rising against the ETB reaching the highest rate in 2019 with $1 dollar equating to 29 ETB. The abrupt depreciation against the dollar between 2010 and 2011 as well as between 2017 and 2018 are due to the devaluation of the currency by the NBE. In 2017 the ETB was devalued by 15% to push competitiveness (Export.gov, 2018). Also Ethiopia managed to keep inflation rate between 7%-10% which is a fast improvement after deflation in 2001 and 44% inflation in 2008 (World Bank, 2019).

Ethiopia has a strong work force of around 52 million people (World Bank , 2019).

The median salary in Ethiopia is 9060 ETB (approx. $324.15) per month (salary explorer, 2019). Nevertheless a worker in a factory for example would earn $500 in China while $50 in Ethiopia. The labour cost is therefore, very low but the efficiency level of a Chinese worker is higher (Jobson, 2014). Ethiopia has invested in human capital by developing plans to improve primary education as well as technical and vocational training in the country. The number of enrolments have increased by 350 thousand between 1990 and 2015. In regards to the skills based needs for the jobs in the market, many employers do not suit the requirements (Golubski, 2016).

Ethiopia's government has recently built a large business park in Hawassa to push

FDI for the manufacturing sector, which has attracted big MNE's such as Tommy Hilfiger and H&M (Reuters, 2017). The opening of such business parks might be an indicator that Ethiopia is changing their economic model to liberalise their market structure. Nevertheless, structural issues with electricity and communication systems are still undeveloped.

South Africa

The republic of South Africa is located at the southern tip of Africa and is no. 25 largest country in the world by land mass. It neighbours with Namibia, Botswana, Zimbabwe, Mozambique, Swaziland and the enclaved Lesotho. South Africa's coastline has both access to the Indian as well as the Atlantic Ocean and therefore has the largest and busiest ports and harbours in Sub-Saharan Africa (businesstech, 2015). It is divided into 9 provinces and has 11 official languages such as English, Afrikaans, Sesotho, Setswana, Xhosa, Zulu etc. (BBC, 2019). It has a population of 56.7 million people in 2017 and the dominant religions are Christianity, Islam and indigenous beliefs (World Bank, 2019). South Africa is part of the BRIC**S** which consists of emerging market countries that cooperate with each other in regards to developments, structural and financial means.

Appendix 14

Source: Foreign direct investment, net inflows (BoP, current US$). Database: The World Bank. <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2017&locations=ZA&start=2008>.

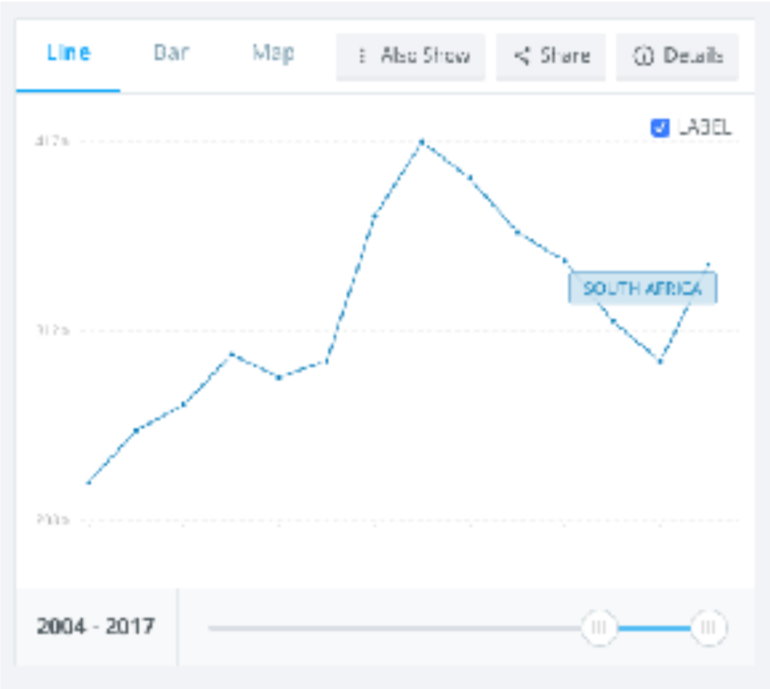
FDI net inflows reached their highest point in 2008 with $9.89 billion and have stagnated to $1.3 billion in 2017. Since the end of Apartheid, South Africa's FDI inflows behave volatile, the major decline between 2009 and 2010 is due to the impacts of the financial crisis and investors' confidence in the country. South Africa's planning commission has not met its targets, overall economic performance was slow, President Zuma announced restricting proprietary rights for foreign investors and the domestic demand was lower than expected by investors (Businesstech, 2018). South Africa's main FDI inflows by sector in 2016 are "*Financial and insurances, real estate and business services 42.1%, Manufacturing 20.8%, Mining 20.5%, Transport, storage and communication 10.4%, Trade, catering and accomodation 4.5% and Community, social and personal services 1.5%*" (Santander, 2019).

Appendix 15

Source: GDP growth (annual %). Database: The World Bank <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=ZA&start=2004>.

South Africa's annual GDP growth experienced a major decline between 2004 and 2009 reaching a low of -1.5 %, which is due to the financial crisis and South Africa's high dependence on foreign investments as previously described. In 2017 the GDP growth is still low with 1.3 % (Appendix 15).

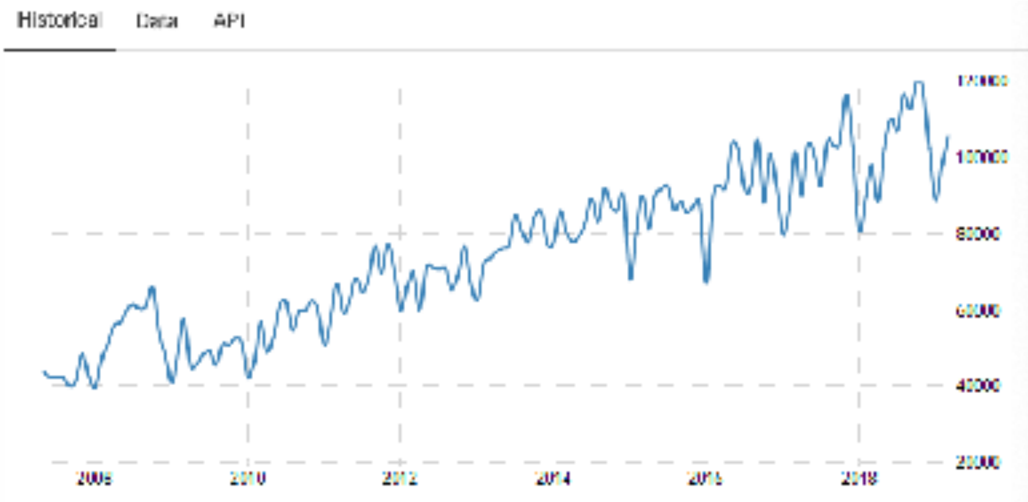
Appendix 16



Source: GDP growth (annual %). Database: The World Bank <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=ZA&start=2004>.

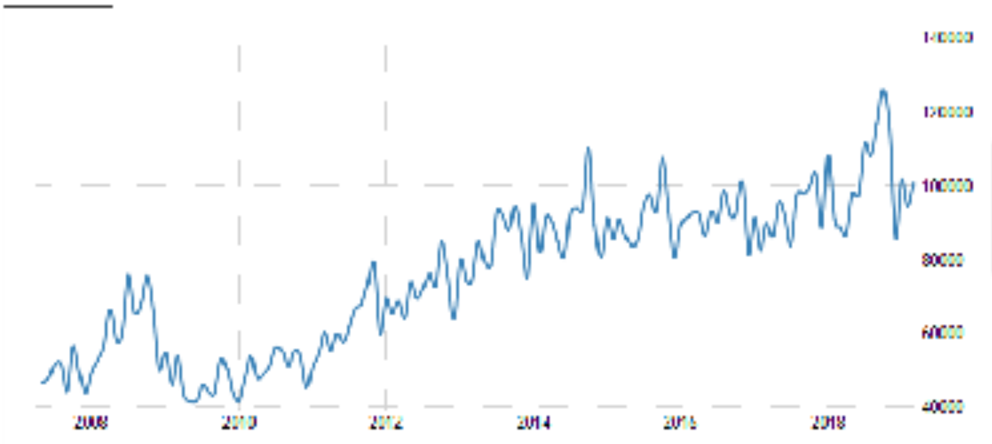
GDP in USD has risen from $228 billion in 2004 to $416 billion in 2011 marking the highest GDP for South Africa. Since 2011 it reaches a low in 2016 with $295 billion, which has partially recovered in 2016 with $349 billion. South Africa’s GDP per capita mimics the graph of GDP showing $4745 in 2004 with a high of $7968 in 2011. From 2011 it declines to $5289 in 2016 and increases to $6151 in 2017 (Appendix 16).

Appendix 17



Source: Exports in ZAR. Database: Trading Economics.
<https://tradingeconomics.com/ethiopia/exports>.

Appendix 18

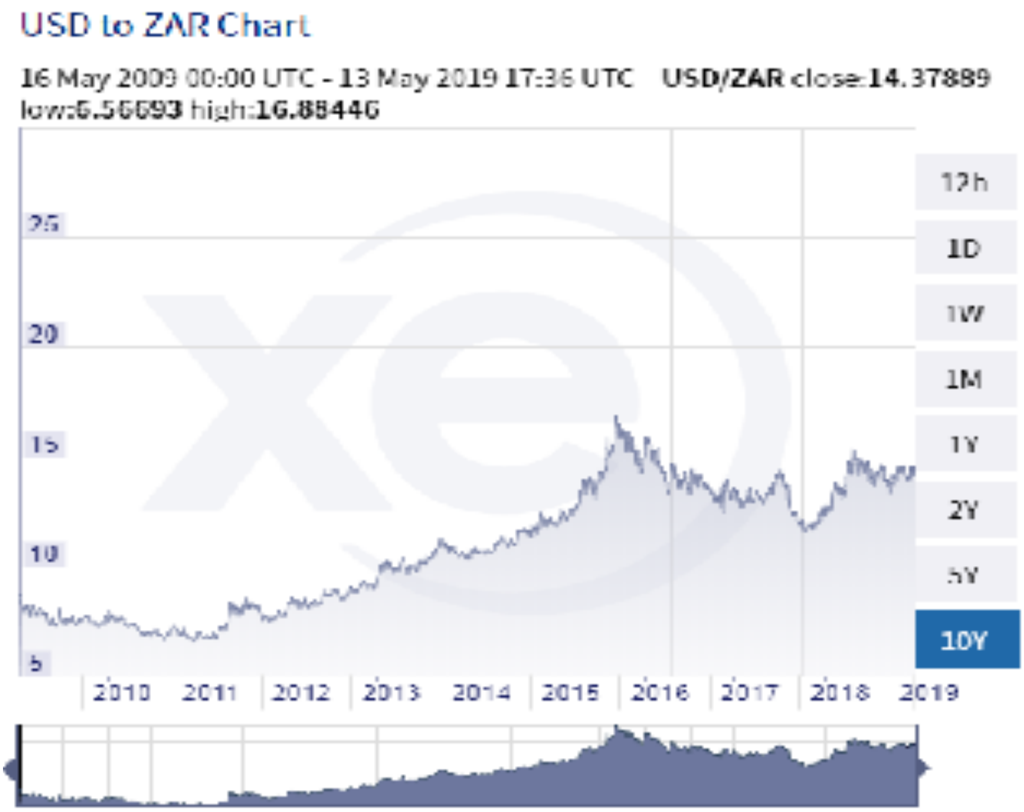


Source: Imports in ZAR. Database: Trading Economics.
<https://tradingeconomics.com/ethiopia/imports>.

South Africa's exports grow overall exponentially, 2008 export the least with 40 billion ZAR (approx. $ 2.78 billion) and reaching highest 119 billion ZAR (approx.$8.29 billion) in 2018 (Appendix 17). Mineral products 25.1%, gold, diamonds, platinum 16.7% are the most exported goods. Imports graph behaves similar with lowest 42 billion ZAR (approx.$2.92 billion) in 2010 and highest in 2018 with 126 billion ZAR (approx. $8.77 billion) (Appendix 18). Although Import lows and highs are higher than exports, including graph stagnation trade balance results slightly positive (trading economics, 2019). In 2017 South Africa's main export destination are "*China $17.1 bln., the US $8.21 bln., India $8 bln., the UK $7.97bln. and Germany $7.05*" (Atlas, 2019).

South Africa has a unique history of colonialism which started in 1652 with the Colony of Cape Town created by the Dutch, resulting in years of slavery and slave trade. Since the demand for slave was high more slaves were brought from Angola, Ghana, India and Madagascar. The British occupied South Africa between 1795 and 1803 until the Dutch ruled over the country again (Sahistory, 2017). Nevertheless in 1934 South Africa was adopted as a British sovereign state and belongs to the commonwealth. Slavery has divided the country in racial groups and with 1948 came the racial segregation and a strict institutionalised system which promoted violence and racial discrimination until its end in 1994 (U.S. department of state, 2009). Nelson Mandela became ironically the first black president of South Africa after he was imprisoned for 27 years for treason (Britannica, 2017). Until today South Africa's has social unrest and demonstrations, with the recent election, its corruption scandal and a reduced ANC majority, South Africa's population is still divided (France-Presse, 2018)

Appendix 19



Source: XE Currency Charts: USD to ZAR. Database: XE <https://www.xe.com/currencycharts/?from=USD&to=ZAR&view=10Y>.

The ZAR is a floating currency experiencing a gradual depreciation against the dollar is to explain by its devaluation. Between 2010 and 2011 the dollar was still weak which led the ZAR to appreciate to 6.56 to $1after the financial crisis, since then investors from developed economies have been less generous with investments (Appendix 19). Also South Africa's slow growth is reducing investors interests, both aspects drive down demand for a currency, which results in depreciation of a currency. In addition the devaluation of the Chinese Yuan had a big influence on the ZAR as South Africa exports oil and mineral goods to China (Bhoola, 2016). Also in the last 8 years South Africa’s inflation rate was stable between 4% and 6% (World Bank, 2019).

South Africa has early implementations of deregulation privatisation of markets and policies to enhance investment inflows. Even before 1994, the country implemented incentives to lower tariffs and strengthen financial systems, mitigating inflation of prices and decreasing fiscal deficit. With the liberalisation of policy regimes from the strict institutional structure in the time of Apartheid, South Africa has established the GEAR policy to reduce macroeconomic restriction. South Africa has signed several agreements such as GATT, GATS, TRIPS and TRIMS and became a member of the WTO; the results of demolishing tariffs fuelled imports and exports. Nevertheless South Africa's policies seemed to concentrate vastly on financial policies rather than policies encouraging dynamics in the industrial sector (Gelb & Black, 2004). Since 2012 the government had been concentrating on the B-BBEE program and the direction of regulations and policies, the government has been focusing on economic policies that help the historically disadvantaged. This included stiffening in labour laws, diversified ownership of companies and workforce. In general South Africa's government has been positive toward IFDI and shows only little interference when it comes to investments, and modes of entry such as merger and acquisitions, greenfield and joint ventures, with exception of strategic sectors. Governmental Institutions such as the DTI and TISA have been encouraging and supporting foreign investors with research and logistical support. The uncertainty and difference in approaches of changing ministers in power and their understanding in regards to policy and regulatory implementations have negative influences on investments (state.gov,2015). South Africa's crime rates are increasing and have been sliding down from rank 54 in 2008 to rank 73 on the CPI (Transparency, 2019)

One of South Africa's comparative advantages lies in their ports and their maritime infrastructure. South Africa's port authority has many development projects aligned such as building ridges and building terminals for the automobile transit. The biggest project is the development of a 'Blue economy' which will concentrate around oil and gas exploration transport and manufacturing activities. Successful and sustainable development of such plan could create over 1 million jobs, utilise resource and save ocean ecosystems (export.gov, 2018).

The unemployment rate in South Africa has increased in the past 10 years from around 23% to 27% in 2019 (Trading economics, 2019). Average monthly income in the formal sector was 20,060 ZAR (approx. $1403.91) in 2017 and decreased to 19,858 ZAR (approx. $1390) in 2018. The total labour force has increased from 17.3 million in 2004 to 22.7 million in 2018. South Africa invests majorly in education around 20 % of the countries budget contributes to education in 2013. University enrolments rose from 799,490 in 2008 to 983,698 in 2013.

Chapter 5

Data Discussion

In the following chapter I will be comparing both countries determinants with the data collected in the previous chapter. The comparisons will be underpinned by the relevance of the literature and theories presented in Chapter 2.

When comparing the countries that invest into South Africa and Ethiopia, it becomes evident that they are either not the same or that they appear in different positions. Nevertheless, the majority has a close psychic distance to the economies in question. Both the UK and the Netherlands have occupied South Africa therefore, they have smaller language and cultural barriers to overcome and can understand the political system better. The same applies to Ethiopia, China can relate to a more restrictive economy and higher corruption levels due to its own market. The Uppsala model state that "*it is found to have an influence on the decision of a location as well as on the mode of entry*" and lead to internalisation and higher commitments. That explains why South Africa is able to attract more FDI from developed countries with higher commitment to its economy.

Both countries have ownership or comparative advantages which investors might seek, in form of natural resource endowments. South Africa's natural resources are much larger compared to Ethiopia and were of bigger interest such as diamonds. Dunning indicates the importance of ownership advantages of resource endowment especially in resource-seeking FDI.

Both countries have weak currencies compared to major trading currencies such as the dollar, pound and euro. Alibers theory proposes investors look for economies with weaker currencies in order to benefit from market capitalisation but also states that "*it focuses on financial flows of monetary capital through portfolio investments and fiscal systems.*" South Africa's fiscal system is more established and transparent in comparison to Ethiopia's.

In regards to locational advantages, both countries have factors that are considered by investor. Ethiopia has significantly low labour cost, the market size and labour force is large and improves on tariff barriers and government policies. Nevertheless, investments based on low labour cost and little efficiency might bring low value FDI inflows. Even though South Africa's labour cost is significantly higher, its labour force has higher skills which Dunning describes as a significant locational advantage. South Africa also has more LSA, higher level of education, lower to no tariff barriers and it has significantly better governmental legislations and policies in comparison to Ethiopia.

Another indicator that could influence locational investment decision in regards to the OLI theory and empirical studies concentrating on the region is market size. Great indicators of market size can be size of population or GDP, however especially in developing countries population does not automatically translate to market size. GDP might be a better indicator in this case, comparing both GDP's it becomes evident that South Africa's GDP is more than 3 time the amount of Ethiopia's GDP, this could be a reason why South Africa has been more successful. Nevertheless Ethiopia's annual GDP growth rate is significantly higher in comparison to South Africa stagnating growth rate. One could argue that this does not necessarily indicate future market potential as Ethiopia's GDP levels were so underdeveloped that when the economy started to grow, growth will be high.

In addition, trade agreements and its implications ease imports and exports for investors in South Africa. Low government interference with modes of entry and governmental institutions supporting cost cutting measures provides internalisation advantages. Ethiopia has restricting policies that complicate mode of entries for foreign investors and increase transactional cost such the requirements for joint ventures. According to Dunning all 3 aspects of OLI have to be in place to insure FDI, Ethiopia's weakest point compared to South Africa is Internalisation which could explain South Africa's better performance in attracting developed country based IFDI.

In regards to the institutional environment South Africa has a significantly stronger regulatory and institutional structure comparatively to Ethiopia. Governmental institutions are well established and in place to support foreign investors with research and logistics. Corruption levels are high but perform significantly better than Ethiopia in the corruption index. South Africa has implications to secure foreign investors property right. Institutional theory suggests that MNEs "*tend to gravitate towards location with a favourable institutional environment where they can gain better firm-specific advantages*". It stresses the importance of institutional quality. Ethiopia has implemented incentives through its governmental institutions but South Africa's institutional quality is what in regards to the institutional theory, makes it comparatively more attractive.

In regards to corruption, Wei's empirical work on the institutional factors showed negative influence on FDI. Simultaneously, lack of corruption was the number one aspect on the 'most important factor in choosing where to make investment' evaluation (Appendix 1). Both countries show relatively high corruption on the CPI and as it shows in regards to South Africa, presidential or ministry changes initiating political unrest and unexpected adjustments in regulatory structure and policies not favouring stakeholder's interests. In other words, corruption could lead to other institutional changes not in investor's favours. South Africa's other factors might be positive enough to cancel corruption as it is a more developed economy, nevertheless for other countries such as Ethiopia it might have greater effects.

Chapter 6

Conclusion and Discussion

The aims of this research are to examine determinants and their impacts on enhancing a country's FDI attractiveness and looking into South Africa and Ethiopia and their performances on attracting inward FDI. In this research I have assessed and criticised relevant theoretical approaches and empirical studies that explain the determinants on FDI activity. I have gathered country specific data in relevance to the determinants and presented them in case studies. Furthermore, both countries have been compared to highlight their differences in their attractiveness to investors.

It can be concluded that South Africa is comparably to Ethiopia more attractive to investors due its overall performance in this study. Arguably, South Africa is a further developed country than Ethiopia and therefore has better means and know-how in how to attract more inward investments. Also, the historical background and its early connection to developed countries, whether or not the associations are negative, has lured investments for a longer period of time, it could be considered a 'head start' in comparison to other countries in the region. Even though the countries performance is comparatively better, it has its own dilemmas and could further enhance FDI attractiveness. Production cost incentives have only little attention and employability targets are not met, which could be driving factors to bring dynamics into FDI. Ethiopia's performance indicated vast gaps in institutional and internalisation advantages compared to South Africa. The country should concentrate on seriously improving its financial and fiscal systems and its transparency. The devaluations of the ETB are unnatural due to it being controlled and might harm inflation rates in the future. Also focusing on further regulatory and institutional policies such as South Africa's could enhance further inward FDI. Market liberalisation and less restricting mode of entry are essential.

Nevertheless to insure sustainable growth and long term IFDI, both countries should concentrate on mitigating corruption and political unrest, as it can affect other positive factors and turn them into negative variables.

Reflection on the research

Choosing secondary data in regards to the literature went well, as sufficient data was available with different opinions and views. Combining secondary data with primary data might have given the research further dynamics and a different outcome. Do conducted research implies to the area of FDI activity in poorer African countries is less explored and therefore implies further room for studies. Also more comparative research could be done on the difference in effects of FDI in both countries in question.

Limitations

In regards to the secondary data approach, empirical studies in regards to the countries in question have been either difficult to find or had questionable sources. Many studies have either been published dissertations which should not be the only source of information. Understandably, historical data upon Ethiopia was far more difficult to find than data upon South Africa. There have also been data inconsistencies, specifically in timelines, where one information source does either not match another or specific years are missing. Since FDI is such a multidimensional subject especially in regards to determinants not all determinants were assessed which would have been needed to come to a precise result but limitations had to be made to fit the criteria of the independent project.

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Appendecies

Appendix 1

Source: Laudicina, P. and Peterson, E. (2017) what are the most important overall factors in choosing where to make investments. ATkearney [online]. [Accessed 18 December] Available at: <http://www.atkearney.co.uk/documents/10192/12116059/FG-2017-FDI-Glass-Half-Full-08.png/4b28da9a-b3c4-4c1a-8a20-810af02906bc?t=1492186436775>

Appendix 2

To be completed by students with a record of a minimum of 6 meetings. Then place in the final submission as Appendix 3.

UG Independent Project Supervision Meeting Record

UNIVERSITY OF WOLVERHAMPTON BUSINESS SCHOOL

Student Name	Jimez Frederick	Student No.	1515901	Start Date:	
Supervisor	DR. MARK COOK				
Module Code	6BU013	Module Title	Independent Project		
Subject Area	International Business Management - Foreign Direct investment				

Contact Type	Date	Feedback	Signature	
Face-to-face, telephone etc.		Please record outcome of meetings making specific notes on agreed actions to be completed.	Supervisor	Student
Face-to-Face	06 03 19	Discussed the Structure and Starting point of the dissertation	M. Cook	[signature]
Face-to-Face	09 04 19	Discussed the Literature review in detail.	M Cook	[signature]

1

To be completed by students with a record of a minimum of 6 meetings. Then place in the final submission as Appendix 2.

Contact Type	Date	Feedback	Signature	
Face-to-face, telephone etc.		Please record outcome of meetings making specific notes on agreed actions to be completed.	Supervisor	Student
Face - to-face	20.04.19	Discussed Introduction and Analysis	[illegible]	[illegible]
Face to Face	03.05.19	Discussed the Case studies, Literature review	[illegible]	[illegible]

1

To be completed by students with a record of a minimum of 6 meetings. Then place in the final submission as Appendix 2.

Contact Type Face-to-face, telephone etc.	Date	Feedback Please record outcome of meetings making specific notes on agreed actions to be completed.	Signature Supervisor	 Student
Face to Face	07.05.19	Spoke about the execution of Data Analysis and discussed literature review		
~~Face to Face~~				

Appendix 3

Source: Research Methodology. (n.d). Abductive Reasoning: *Abductive Approach* [Online]. [Accessed 5 February 2019]. Available at: <https://research-methodology.net/research-methodology/research-approach/abductive-reasoning-abductive-approach/>.

Ethics Proposal Form for undergraduate written projects, independent study, and Student Link involving human subjects.

Updated: 2019. This should be submitted as part of your project and placed as appendix A

You should read the University Ethics Guidance before filling in this form. This is available from: https://www.wlv.ac.uk/research/research-policies-procedures--guidelines/ethics-guidance/

Please submit this form to the module leader for the project you are undertaking. Once the module leader has approved and signed it, you should append a copy to your project/dissertation.

Please note that this permission is only concerned with ethical issues and does not indicate anything about the intellectual merit of your project.

Please type details into the form.

1. Name: Janet Fredekind

2. Student number: 1515901

3. Email address (this must be your University email address)**:**

4. Name of supervisor: Dr. Mark Cook

5. Module Code and Title: 6BU013 Independent Project

6. Project Title: An examination of the determinants of inward FDI and the attractiveness of South Africa comparatively to Ethiopia.

7. Into which category does your project fall?

Tick as applicable:

Category 0 • Research that does not involve human subjects or raise any ethical concerns.	x
Category A • Research that involves human subjects that are considered not to cause any physical or psychological harm.	

Category B • Research that may be considered likely to cause physical or psychological harm. • Research that may be contentious and/or risks bringing the University into disrepute. • Research that requires accessing confidential data. • Research that involves individuals considered to be vulnerable.	

8. Does your study involve any of the following?

(Please tick ALL that apply.)

Making video/DVD	
Making audio recording	
Observation of human subjects	
Participant observation	
Telephone and/or Email contact with individuals or organisations	
Interviews (structured/ semi-structured/un-structured)	
Questionnaires (including on-line questionnaires)	
Access to confidential information	
Contact with minors (anyone under the age of 18)	
Contact with other vulnerable people (e.g. victims of crime, the recently bereaved)	
Research about a controversial issue	

Other: please specify (e.g. will your finished project be accessible to the public outside the university?)

9. Brief outline of project.

My Project revolves around FDI inflows between two emerging economies (Ethiopia and South Africa) and their performance in attracting inward foreign direct investment.

10. Research methods.

You should give a brief account of the nature of the intended interaction with human participants. This should include an indication of:

- Your objective in gathering primary data from participants.

- How participants will be identified (including sampling method if doing questionnaires).
- The number of research participants.
- A sample of questions if conducting either interviews or questionnaires.

11. What in your view are the ethical considerations involved in this project? (e.g. confidentiality, consent, risk, physical or psychological harm, etc.) Please explain in full sentences. Do not simply list the issues.

12. Have participants been/will participants be, fully informed of the risks and benefits of participating and of their right to refuse participation or withdraw from the research at any time?

If yes, explain the procedure, if no, explain why.

13. How will you store the data you have collected, both during and after the project?

14. Is ethical approval required by an external agency/parents?

Please specify and attach written permission**.**

Student signature: Janet Fredekind Date 15.05.2018

For module leader's use only:

Do you:

(please circle/indicate from options below – note that category B research should be referred to the Faculty Ethics Committee, via Sheila Gill, the Faculty Ethics Committee Administrator by email: Sheila.Gill@wlv.ac.uk)

1. approve the ethics proposal form

2. approve the ethics proposal form subject to the following (please detail):

3. do not approve the ethics proposal form and request that the student modify the project.

Supervisor Signature: .... Date……………………..