

**UNIVERSITY OF KWAZULU-NATAL**

**Macro-environmental factors influencing Chinese enterprises development in  
KwaZulu-Natal (KZN)**

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**A dissertation submitted in partial fulfillment of the requirements for the degree  
of  
Master of Commerce**

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**2010**

## DECLARATION

I .....Fuzhuan Chen.....declare that

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## **Acknowledgements**

I would like to express my sincere appreciation towards the following persons and institutions:

- ✧ The University of KwaZulu-Natal (UKZN) for giving me an opportunity to study at the University for the past five years.
- ✧ Dr. A. S. Gani, my supervisor, who has guided me and pushed the boundaries to ensure that the process has been both enjoyable and stimulating.
- ✧ Professor S. Perumal, my co-supervisor, for the professional assistance rendered to me.
- ✧ My friends, who had faith that I would be successful in my studies.
- ✧ My Wife, YingYing Shi, who always encouraged me when I encountered problems in my lives and in my studies.
- ✧ My mother and father who have both sacrificed so much in the past to ensure that they could bring me up in the best way that they saw fit. I hope and pray that one-day I am able to repay them for all the love and support that they have given so freely.

## **ABSTRACT**

The macro-environmental factors of an organization are external environmental factors, which are largely uncontrollable by an organization. This study analyses the macro-environment in which Chinese enterprises in KwaZulu-Natal (KZN) operate in order to identify the factors that have influenced the development of these enterprises in the past ten years.

Today's companies are evolving in turbulent and equivocal environments. Although most of the Chinese enterprises cannot control these macro-environment factors, they need to be aware of them and identify those factors that could constrain their future development.

## **Table of Contents**

	<b>PAGES</b>
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1. Introduction	1
1.2. Background	2
1.3. Significance of the proposed study	5
1.4. Problem statement	5
1.5. Objectives of the study	5
1.6. Key problems	6
1.7. Limitation of the study	6
1.7.1. Geographic factors	6
1.7.2. The types of enterprises	6
1.8. Structure of the study	6
1.9. Conclusion	7
<b>CHAPTER TWO: LITERATURE REVIEW</b>	
2.1. Introduction	8
2.2. The definition of macro-environment factors	11
2.3. Economic review in KZN	12
2.3.1. Economic growth trend in KZN	13
2.3.2. Business confidence in KZN	14
2.3.3. The Unemployment Rate in KZN	15
2.3.4. Contribution to Provincial GDP per Sector	16
2.3.5. Economic indicators in KZN	17
2.3.6. KwaZulu-Natal's contribution to South African Exports	17
2.4. The characteristics of Chinese enterprises in KZN	18
2.4.1. Distribution by areas	18
2.4.2. History	19
2.4.3. Size of Chinese enterprises	19
2.4.4. Distribution by industry	20
2.5. Reasons for investing in KZN in the past decade	20

	<b>PAGES</b>
2.5.1. Locational aspects	20
2.5.1.1. Market size and attractiveness	21
2.5.1.2. Growing demand	21
2.5.2. Workforce aspects	22
2.5.3. Government Factors	23
2.5.3.1. Taxation in South Africa	23
2.5.3.2. The openness of the economy in KZN	24
2.5.3.3. Local political environment	24
2.5.3.4. The level of infrastructure in KZN	25
2.6. Macro-environmental factors influencing Chinese enterprise development in KZN	25
2.6.1. Exchange rate	28
2.6.2. Crime rate	31
2.6.3. Infrastructure services	32
2.6.4. Inflation	35
2.6.4.1. Real rates of return	35
2.6.4.2. Inflation's inconveniences	36
2.6.5. Union problems	37
2.6.6. Taxation	38
2.6.7. Competition	40
2.7. Conclusion	41

### **CHAPTER THREE: RESEARCH METHODOLOGY**

3.1. Introduction	42
3.2. Type of Study	42
3.3. Qualitative and Quantitative Research Design	43
3.4. Time horizon	44
3.5. Sampling design of study	45
3.6. Data collection	47
3.7. The Questionnaire	49
3.8. Measuring instruments	50
3.9. Data analysis	52
3.10. Conclusion	52

### **CHAPTER FOUR: FINDINGS**

4.1. Introduction	53
4.2. Biographical aspects of the sample	54
4.2.1. Age of respondents	54

	<b>PAGES</b>
4.2.2. Gender of respondents	55
4.2.3. Contribution by age of business in KZN	56
4.2.4. The number of employees in your company	57
4.2.5. Contribution by industry of Chinese enterprises in KZN	57
4.2.6. Contribution by locations of Chinese enterprises in KZN	58
4.2.7. Business conditions in the last year	59
4.2.8. Macro environment in the next year	59
4.3. Reasons for investing in KZN	60
4.3.1. Market size and attractiveness	60
4.3.2. Growing demand	61
4.3.3. Labor cost	62
4.3.4. Taxation	63
4.3.5. The openness of the economy	64
4.3.6. Local political environment	65
4.3.7. The level of infrastructure	66
4.4. Macro-environment factors in KZN	66
4.4.1. The weak exchange rate	67
4.4.2. Rising crime rate	68
4.4.3. Higher inflation rate	69
4.4.4. Union activity	70
4.4.5. Taxation	71
4.4.6. The level of infrastructure	72
4.4.7. Competitive environment	73
4.5. Aspects influenced by macro-environment factors	74
4.5.1. Increase in the cost of materials imported from China	74
4.5.2. Down turn in business development in KZN	75
4.5.3. The effect of the level of infrastructure in KZN	76
4.5.4. Reductions in the real rate of return	76
4.5.5. Hindrances to entrepreneurial activity in KZN	77
4.5.6. Reductions to business profits in KZN	78
4.5.7. Return on investment in KZN	78
4.6. Conclusion	79

## **CHAPTER FIVE: RECOMMENDATIONS**

5.1. Introduction	80
5.2. Recommendations	80
5.2.1. For Chinese enterprises	80
5.2.2. For the province Government	82
5.3. Areas for Further Research	83

	<b>PAGES</b>
References	85-93
Questionnaire	
Ethical Clearance	

## LIST OF TABLES

Table 2.1: Global Economic Outlook, July 2009	13
Table 2.2: Growth Trends in South Africa and KwaZulu- Natal	14
Table 2.3: Unemployment Statistics in KwaZulu-Natal	16
Table 2.4: The definition of SMEs in South Africa	19
Table 2.5: Headline inflation rate in KwaZulu-Natal (KZN) 2008	36
Table 3.1: Terms of sampling	46
Table 3.2: The sections of the questionnaire	50
Table 3.3: Four types of scales	51
Table 4.1: The number of employees in your company	57
Table 4.2: Business condition in the past year	59
Table 4.3: Macro-environment in the following year	59
Table 4.4: The weak exchange rate influence	74
Table 4.5: The rising crime rate influence	75
Table 4.6: Power shortage influence	76
Table 4.7: Higher inflation influence	76
Table 4.8: Union activity influence	77
Table 4.9: Taxation influence	78
Table 4.10: The competitive environment influence	78

## LIST OF FIGURES

Figure 1.1: Trade between China and Africa in 2003	3
Figure 1.2: China's total investments in Africa between 1979 and 2002	4
Figure 2.1: Macro-environmental influences	9
Figure 2.2: SACOB and KwaZulu-Natal (KZN) business indices compared	11
Figure 2.3: KwaZulu-Natal (KZN) business confidence index	15
Figure 2.4: Contribution to Provincial GDP per Sector (2000-2007)	16
Figure 2.5: Economic indicators	17
Figure 2.6: South African Provincial Exports in 2006	18
Figure 2.7: Hourly wage cost	23
Figure 2.8: Business limitations	27
Figure 2.9: Key factors affecting FDI flows into Southern African countries	28
Figure 2.10: Exchange rate between Rand and US Dollar	30
Figure 2.11: World electricity prices 2007	34
Figure 2.12: Comparative tax rates around the world	39
Figure 3.1: Sampling techniques	47
Figure 3.2: Types of questionnaire	49
Figure 4.1: The response rate in this study	53
Figure 4.2: Age of respondents	54
Figure 4.3: Gender of respondents	55
Figure 4.4: Contribution by age of business in KZN	56
Figure 4.5: Contribution by industry of Chinese enterprises in KZN	57
Figure 4.6: Contribution by locations of Chinese enterprises in KZN	58
Figure 4.7: Market size and attractiveness in KZN	60
Figure 4.8: Growing demand in KZN	61
Figure 4.9: Labour cost in KZN	62
Figure 4.10: Taxation in KZN	63
Figure 4.11: The openness of the economy in KZN	64
Figure 4.12: Local political environment in KZN	65
Figure 4.13: The level of infrastructure in KZN	66
Figure 4.14: Effect of the weak exchange rate on macro-environment	67
Figure 4.15: Effect of rising crime rate on macro-environment	68
Figure 4.16: Effect of higher inflation rate on macro-environment	69
Figure 4.17: Effect of union activity on macro-environment	70
Figure 4.18: Effect of taxation on macro-environment	71
Figure 4.19: Effect of the level of infrastructure on macro-environment	72
Figure 4.20: Effect of competitive environment on macro-environment	73

## **LIST OF ABBREVIATIONS**

BCI: Business Confidence Index

DED: Department of Economic Development

FDI: Foreign direct investment

GDP: Gross domestic product

ICF: Investment Climate Facility for Africa

IMF: International Monetary Fund

KNBCI: KwaZulu-Natal (KZN) Business Confidence Index

KNCOB: Kwazulu-Natal Chamber of Business

KZN: Kwazulu-Natal

OECD: Organization of Economic Cooperation and Development

PGDS: Provincial Growth and Development Strategy

SADC: Southern African Development Community

SACOB: South African Chamber of Business

SMEs: Small and medium enterprises

SMMEs: Small, Medium and Micro Enterprises

SPSS: Statistical Package for the Social Sciences or Statistical Product and Service  
Solutions

TIKZN: Trade and Investment KwaZulu-Natal

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Programme

VAT: Value Added Tax

## CHAPTER ONE

### INTRODUCTION

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#### 1.1. Introduction

South Africa has an enormous potential as an investment destination, offering a unique combination of highly developed first world economic infrastructure and a vibrant emerging market economy. It is also one of the most advanced and productive economies in Africa. Since the advent of democracy in 1994, South Africa's economy has been undergoing structural transformation, with the implementation of macro-economic policies aimed at promoting domestic competitiveness, growth and employment and increasing the economy's outward orientation. Key economic reforms have given rise to a high level of macro-economic stability. Taxes have been reduced, tariffs lowered, the fiscal deficit brought under control, and exchange controls relaxed. However, more and more Chinese enterprises that have invested in KwaZulu-Natal (KZN) are under pressure due to the complexity of the local macro-environment.

Theoretically, factors in the macro-environment could be considered as the external business environment conditions of a region as well as a nation. According to Mahadea and Pillay (2008), external business environment conditions refer to the factors outside the firm over which the entrepreneur has little control. In general, these conditions include the political, economic, social, technological, environmental, and legal factors.

This chapter covers the background to study, the significance of the study, the problem statement, the objectives and the key questions of study, the limitations of the study, and finally the outline of the study.

## 1.2. Background

The new South African government has identified foreign direct investment (FDI) as an important factor for local economic development from a regional and national perspective. Johan, Ernst and Neels (2006) have shown that foreign direct investment (FDI) has played an important role in stimulating economic growth in many developing countries, through:

- The transfer of modern technology and production techniques;
- The transfer of skills, management expertise, and high-level training;
- The enhancement of access to international sources of finance, and
- The facilitation of access to global markets.

KZN is South Africa's second most populous province and is the second largest provincial economy (South Africa at a Glance, 2009-10). The province has been seen as an ideal investment destination for many Chinese enterprises. Although there is a wide range of investment incentives available to foreign companies, Chinese enterprises face an uncertain macro-environment in KZN.

Mr Zhong Jiang-Hua, the ambassador of the People's Republic of China in South Africa, stated that over the past 10 years, there has been a rapid, all-round development in bilateral relations between China and South Africa and the two countries have established a strategic partnership with fruitful cooperation in bilateral and international affairs. The Chinese-South African relationship has become one of

the most important (see Figure 1.1) and dynamic between China and any African country, as well as any major developing nation. In 2007, the bilateral trade volume reached US\$14.04 billion, 6.5 times 10 years ago.

	<b>Exports</b>	<b>Imports</b>	<b>Total</b>
<b>South Africa</b>	<b>2.02</b>	<b>1.84</b>	<b>3.86</b>
<b>Algeria</b>	<b>0.64</b>	<b>0.09</b>	<b>0.73</b>
<b>Angola</b>	<b>0.14</b>	<b>2.2</b>	<b>2.34</b>
<b>Benin</b>	<b>0.47</b>	<b>0.07</b>	<b>0.54</b>
<b>Congo</b>	<b>0.06</b>	<b>0.81</b>	<b>0.87</b>
<b>Egypt</b>	<b>0.93</b>	<b>0.15</b>	<b>1.08</b>
<b>Morocco</b>	<b>0.69</b>	<b>0.16</b>	<b>0.85</b>
<b>Nigeria</b>	<b>1.78</b>	<b>0.07</b>	<b>1.85</b>
<b>Sudan</b>	<b>0.47</b>	<b>1.44</b>	<b>1.91</b>
<b>Others</b>	<b>2.93</b>	<b>1.52</b>	<b>4.45</b>
<b>Total</b>	<b>10.13</b>	<b>8.35</b>	<b>18.48</b>

*Source: Ministry of Commerce of the People's Republic of China, 2004.*

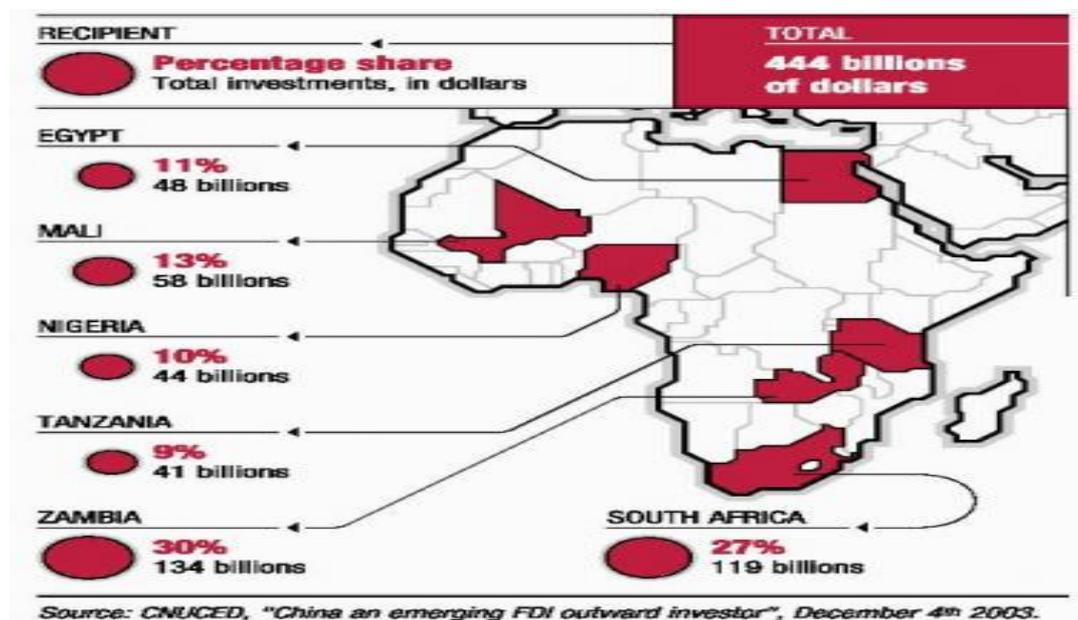
**Figure 1.1: Trade between China and Africa in 2003 (in billions of dollars)**  
**Source: Ministry of Commerce of the People's Republic of China, 2004**

Chinese firms from different sectors have invested in South Africa. Some of these companies include:

- Hisense – The electronic goods producer ( producers of TVs, DVD players, Hi-fi's and home theatre systems) entered the South African market in 1997, expanded its facilities and service offerings to the South African public in 2004 and complete another US\$19-million expansion in 2009, introducing washing machines and refrigerators to its product range. The company has maintained a 20-30% growth rate in the past decade.
- Sinoprime Investment and Manufacturing South Africa, a subsidiary of Xiamen Overseas Chinese Electronic Co., has been manufacturing and distributing consumer electronics (CRT TVs, Plasma and LCD TVs) in South Africa since 1998.

- FAW Vehicle Manufacturer manufactures heavy vehicles.
- Hence Trade 88 spins yarn and distributes cotton to South African companies.
- Zhongxing Communications (ZTE)
- Huawei Technologies

FDI in Africa by developing Asian economies is growing and has the potential to reach much higher levels. A joint report by the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Program (UNDP) states that over the past decade, the African continent has become the main investment destination for China. South Africa has become the second largest investment destination for Chinese investors in all of Africa (see Figure 1.2). In addition, the South African government has made it clear that foreign investment is welcome in South Africa, and investor-friendly policies support these public pronouncements.



**Figure 1.2: China's total investments in Africa between 1979 and 2002**  
**Source: CNUCED, "China an emerging FDI outward investor", December 4<sup>th</sup> 2003.**

Chinese enterprise investment in KZN has substantially increased in the past decade. More and more Chinese enterprises have invested in this province. KZN is an

emerging market, which is a very attractive investment destination for Chinese enterprises. However, currently these enterprises are facing a capricious macro environment. These Chinese enterprises need to be able to identify various macro-environmental factors, which could seriously influence their business development, even result them exiting the local market in years to come.

### **1.3. Significance of the Proposed Study**

The significance of proposed study is that it would provide accurate information about the macro-economic environmental situation in South Africa and assist Chinese enterprises that have invested in KZN or intend to invest in the province. Furthermore, the study would provide reliable sources of evidence that should assist the national and provincial governments to formulate attractive FDI policies aimed at Chinese investors. Finally, proposed study will enable researcher to gain insight into and understanding of South Africa's macro-environmental factors and policies.

### **1.4. Problem Statement**

The study will identify the macro-environmental factors influencing the development of Chinese enterprises in KZN and examine what aspects of Chinese enterprises' development will be constrained in the province.

### **1.5. Objective of the Study**

The objective of the study is to investigate the macro-environmental factors that may affect Chinese enterprises' business strategy and development.

## 1.6. Key Questions

Based on the above-mentioned objectives, the three main questions of the study are as follows:

- What are the major reasons for Chinese investment in KZN in the past decade?
- What are the macro-environmental factors that could constrain the Chinese enterprises' development in KZN?
- What are the aspects that influence the macro-environmental factors that affect Chinese enterprise development in KZN?

## 1.7. Limitations of the Study

The limitations of the research project are listed as specific categories below.

### 1.7.1. Geographic Factors

The study was restricted to the province of KZN.

### 1.7.2. The Types of Enterprises

The researcher primarily focused on Chinese enterprises located within KZN.

## 1.8. Structure of the study

The study is divided into five chapters.

Chapter one provided the background to the study, the significance of the study, the problem statement, the objectives of the study, the key questions, the structure of the study, and the outline of the study.

Chapter two presents a detailed literature review in relation to macro-environmental factors and other related subjects. The chapter also covers aspects that influence the macro-environmental factors of the study.

Chapter three outlines the research methodology and techniques used to acquire data for analysis. It deals with the type of study, qualitative and quantitative research design, time horizon, the sampling design of the study, data collection, questionnaire of the study, measuring instruments, data analysis and the conclusion.

Chapter four presents an analysis of the empirical data. The data was analyzed using SPSS, and the results will be interpreted in this chapter.

Chapter five reviews the main research questions and presents conclusions and recommendations based on this study.

## **1.9. Conclusion**

This chapter highlighted the need for the study and presented the research design that will be followed. The next chapter will focus on the literature review.

## CHAPTER TWO

### Literature review

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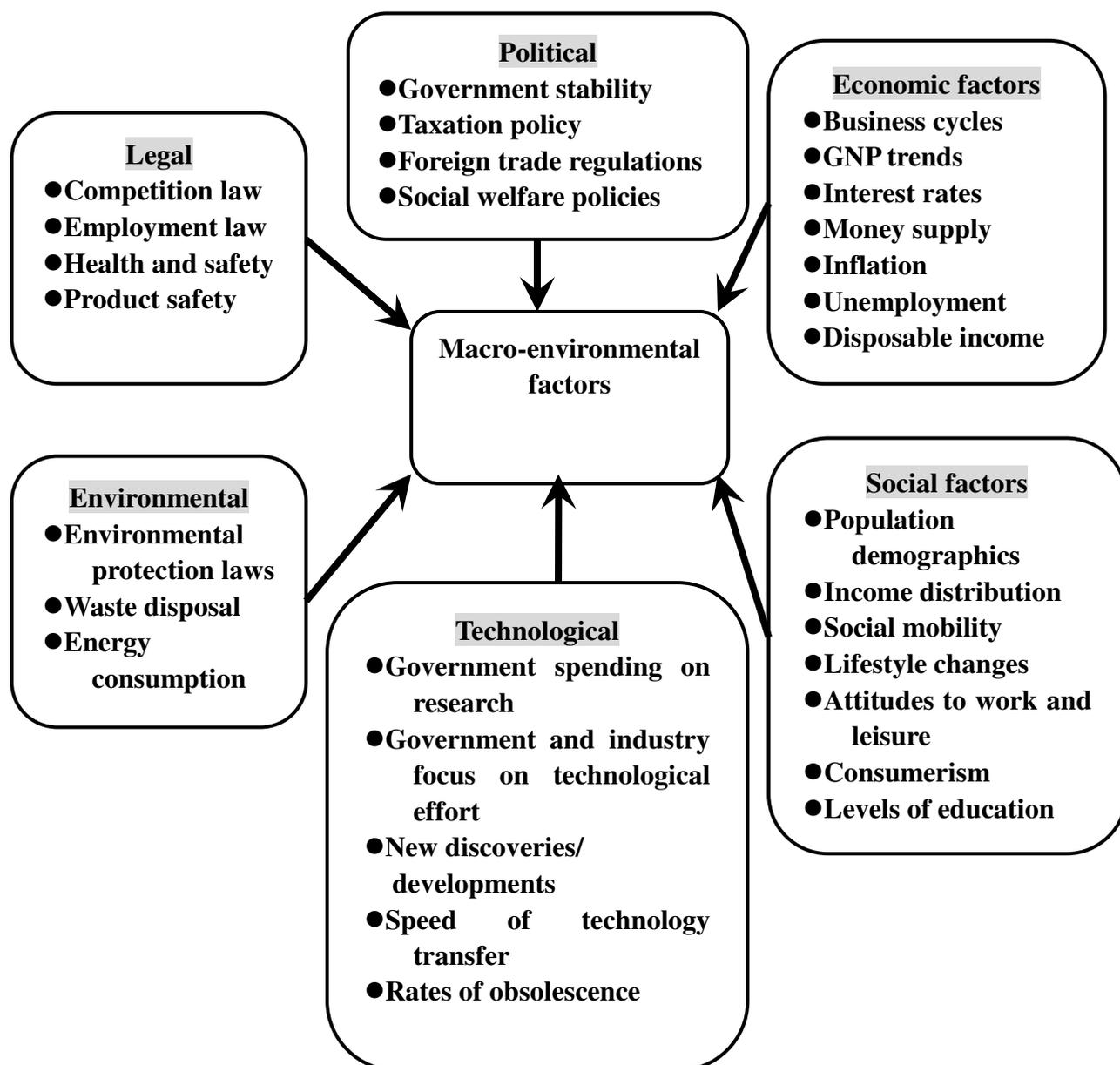
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#### 2.1.Introduction

Fry, Stoner and Hattwick (2001:13) note that businesses are neither independent nor completely isolated from the internal and external environment within which they function. In other words, an enterprise does not develop in a vacuum, but is influenced by the context in which it operates. The business environment is made up of constantly changing factors (both micro and macro in nature) that affect the development of the organization.

Micro environmental factors are internal factors close to the organization and have a direct impact on the organizations strategy (Campbell and Craig, 2005). In contrast, macro environment factors include the economy, technology, society, government and the competitive environmental factors that can influence an organization, but are outside of the organization's sphere of control (Campbell and Craig, 2005). These factors will obviously affect the decisions made by the management of any organization. Management can categorize these factors by using the PESTEL model (as shown in Figure 2.1). According to Johnson, Scholes and Whittington (2006), the external environment for a firm will mainly focus on the macro-environmental factors that may influence the firms' development in the real business world. These factors should include political, economic, social, technological, environmental, and legal factors. Macro-environmental factors can be considered as external factors, which

affect the development of most enterprises and are beyond their control (Mahadea and Pillay, 2008).

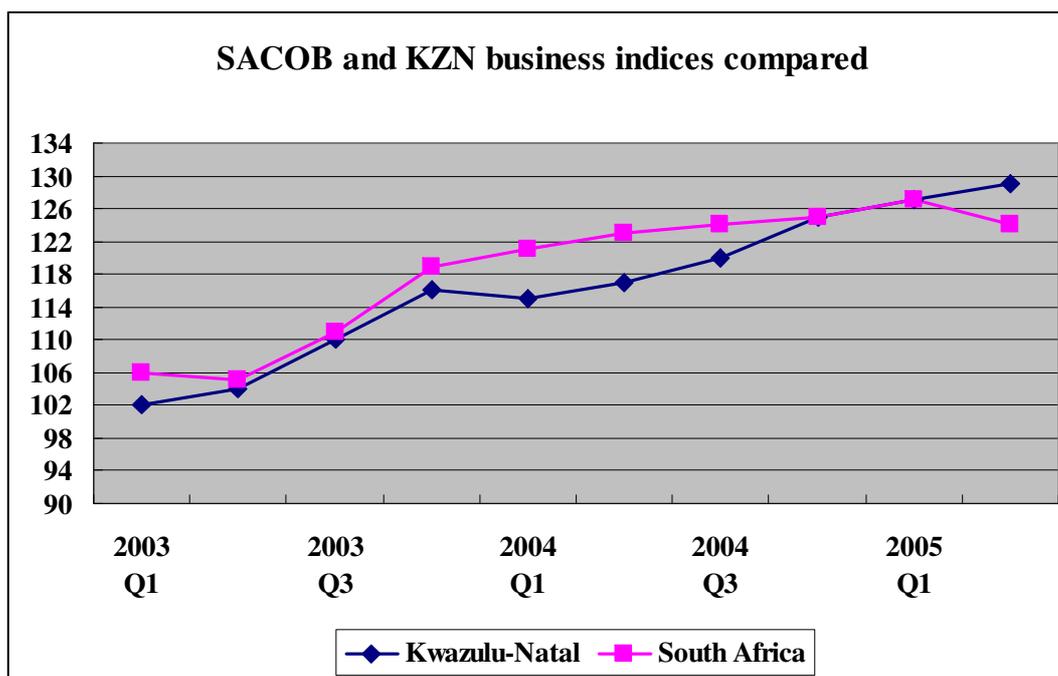


**Figure 2.1: Macro-environmental influences (the PESTEL framework)**  
 Source: Johnson, Scholes and Whittington. (2006). Exploring Corporate Strategy: Text and Case.

The external environment relates to factors outside the firm over which the entrepreneur has little control (Mahadea and Pillay, 2008). It means that the firm may be influenced by changes within the external environment but can not itself influence the environment. Furthermore, forces in the external environment can help or hinder a firm's performance. In a sense, the entrepreneur has almost no control over the external environment.

The World Bank and International Finance Corporation's Doing Business 2008 Report showed that South Africa was placed ninth for its protection of investors. There has been continuous improvement in investor confidence in South Africa (World Bank, "African Economic Outlook" 2007). According to the KwaZulu-Natal Business Confidence Index (KNBCI) published by the KwaZulu-Natal Chamber of Business (KNCOB), the trend in KwaZulu-Natal (KZN) business confidence is broadly similar to the national trend (see Figure 2.2). Figure 2.2 shows that the macro-economic environment has been improved in KZN in the past years. The overall economic environment in South Africa has been extremely positive in recent times, with growth averaging around five per cent since 2003 (Mboweni, 2007). According to Palmi (2007), companies in KZN are doing fairly.

"Although the investment climate for large formal enterprises in South Africa appears favorable in many ways, some challenges remain," said Ritva Reinikka, the World Bank Country Director for South Africa. In a survey of clothing companies in KZN in 2007, most of the clothing companies agreed that various macro-environmental factors, such as the exchange rate, union, labour problems, and wage costs, have affected their business recently (Palmi, 2007). Rodrik (2008) in his research illustrated that despite the numerous positive economic achievements since 1994, South Africa has struggled to attract significant foreign direct investment (FDI). He also pointed out that investment in South Africa remains low at around 17 percent of GDP.



**Figure 2.2: SACOB and KwaZulu-Natal (KZN) business indices compared**  
**Source: KwaZulu-Natal (KZN) Business Confidence Index, Second Quarter 2005**

Some economists, therefore, note that while KZN is a province of opportunities, it also poses big challenge for the development of Chinese enterprises. It is interesting that despite economic services in KZN being significantly lower than the other South African provinces (Palmi, 2007), a number of Chinese enterprises have invested in the province. It is worth to note that Chinese enterprises have to be aware of macro-environmental factors if they want to survive in the current market in KZN.

## 2.2.The definition of macro-environmental factors

The macro-environmental factors of an organization are basically its external environment factors, which are largely uncontrollable by an organization. In terms of the business dictionary, the definition of the macro-environment can be categorized into two groups.

Firstly the macro-environment can be defined as, “Major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies. These factors include the economic, demographic, legal, political, and social conditions, technological changes, and natural forces.”

Secondly the macro-environment can be defined as, “Factors that influence a company's or product's development but that are outside of the company's control. For example, the macro environment could include competitors, changes in interest rates, changes in cultural tastes, or government regulations.”

According to Johnson, Scholes and Whittington (2006), the PESTEL model could be used to analyze the macro-environmental factors of an enterprise or industry. The model shows that the macro-environmental factors should include political, economic, social, technological, and environmental factors as well as legal factors. By using the PESTEL framework we can identify the macro-environmental factors that most Chinese enterprises are facing in KwaZulu-Natal (KZN).

Based on the above-analyzed, the definition of macro-environmental factors in the study could be defined as “factors that influence Chinese enterprises development in KZN but are outside of the Chinese entrepreneurs’ control in the current situation.”

### **2.3. Economic review of KZN**

KZN is emerging as South Africa's economic and business hub as a result of significant economic growth (Velia and Valodia, 2003). The province's contribution to South African Gross Domestic Product (GDP) is second only to that of Gauteng. Dr Kwazi Mbanjwa, Director-General of KZN, stated in 2007 that over the past five years the province's contribution to the GDP has been 3, 11 percent, against the national

norm of 3, 24 percent. However, KZN face major challenges because of the global economic situation. According to the Department of Economic Development KwaZulu-Natal (KZN) Report in 2009, KZN has not been spared by the wrath of the financial crisis due to global financial turmoil (see Table 2.1). In Quarter One of 2009, the provincial economy declined by 6.7% which was 0.03% more than the national economy. In line with national developments, KZN slipped into a recession in the first quarter.

**Table 2.1: Global Economic Outlook, July 2009**

Geographic regions	Forecast		Projections	
	2007	2008	2009	2010
<b>World output</b>	<b>5.1</b>	<b>2.5</b>	<b>- 1.4</b>	<b>2.5</b>
Advanced economies	2.7	0.8	- 3.8	0.6
United States	2.0	1.1	- 2.6	0.8
Euro Area	2.7	0.8	- 4.8	- 0.03
Japan	2.3	- 0.7	- 0.6	1.7
United Kingdom	2.6	0.7	- 4.2	0.2
Emerging and developing	8.3	6.0	1.5	4.7
Africa	6.2	5.2	1.8	4.1
China	13.0	9.0	7.5	8.5

**Source: IMF World Economic Outlook, July 2009**

### 2.3.1. Economic growth trend in KwaZulu-Natal

Cosma and Enough (2008) found that the KZN provincial economy grew at an average of 4.4% between 2000 and 2007. During this period, the national economy thus grew by an average of 4.3% (see Table 2.2). KZN remains one of the major economic power houses of South Africa contributing an average of 16.5% to the total South Africa GDP during the period under review.

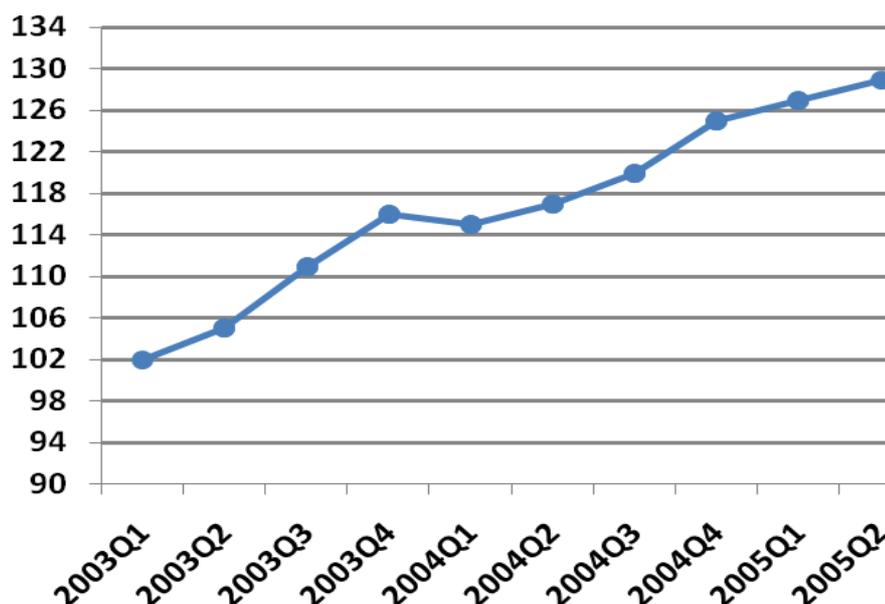
**Table 2.2: Growth Trends in South Africa and KwaZulu-Natal**

<b>Year</b>	<b>South Africa Real GDP Growth Rate</b>	<b>Real GDP Growth Rate</b>	<b>% Share of KWAZULU-NATAL (KZN) GDP</b>
2000	4.4	4.9	16.4
2001	2.9	4.2	16.6
2002	3.8	2.9	16.5
2003	3.2	3.0	16.4
2004	4.8	4.7	16.4
2005	5.0	5.4	16.5
2006	5.3	5.3	16.5
2007	5.1	4.8	16.4
<b>Average</b>	<b>4.3</b>	<b>4.4</b>	<b>16.5</b>

**Source: Quantec Statistical Data Base**

### 2.3.2. Business confidence in KwaZulu-Natal

According to the KwaZulu-Natal Department of Economic Development Reported in the second quarter of 2005, business confidence in KZN had been increasing since the first quarter of 2003 (see Figure 2.3). This makes the province a major business destination for foreign investment.



**Figure 2.3: KwaZulu-Natal (KZN) business confidence index**  
Source: KwaZulu-Natal (KZN) department of economic development reported in second quarter 2005.

### 2.3.3. The Unemployment Rate in KwaZulu-Natal

One of the main goals of the Provincial Growth and Development Strategy (PGDS) is to reduce poverty and unemployment by 50% by the year 2014. However, current employment trends contradict this goal. Statistics reveal that while the economy grew by at least 4.8% in 2007, the average percentage of unemployed people has only changed marginally in the past seven years. Although the unemployment statistics (see Table 2.3) have been fluctuating, the fact that 28.8% of the labour force was unemployed in 2000 and 28.7% in 2007 implies that the economy is not creating enough jobs. Unemployment has been a severe problem in KwaZulu-Natal (KZN).

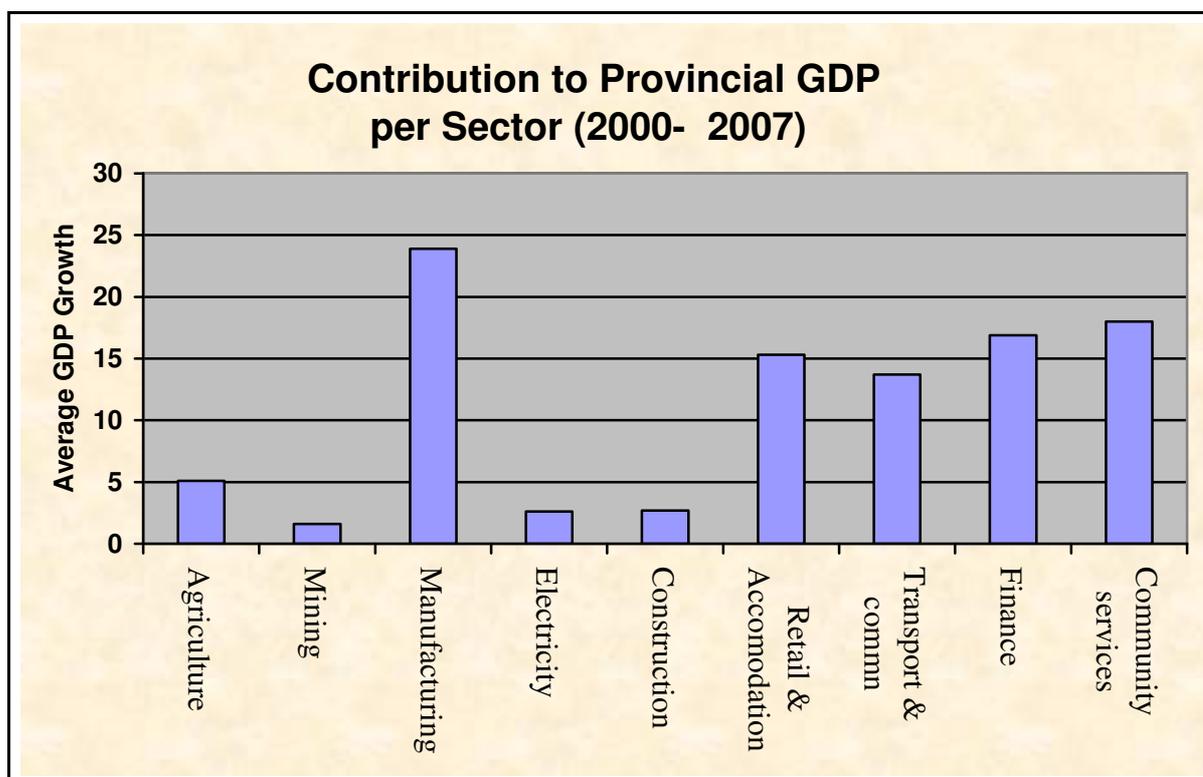
**Table 2.3: Unemployment Statistics in KwaZulu-Natal**

Year	2000	2001	2002	2003	2004	2005	2006	2007
<b>Average Unemployment</b>	28.8%	29.6%	34.0%	33.3%	30.2%	31.8%	27.8%	28.7%

Source: Quantec

#### 2.3.4. Contribution to Provincial GDP per Sector

The manufacturing sector is by far the largest sector in KZN contributing about 23.9% to the total provincial GDP. Wan (2007) pointed out that most Chinese enterprises are centered on manufacturing. Figure 2.4 below indicates that manufacturing, finance, retail and trade, and transport and communication are also the major sectors in the provincial economy.



**Figure 2.4: Contribution to Provincial GDP per Sector (2000-2007)**

Source: H. Cosma and S. Enough, 2008:5.

### 2.3.5. Economic indicators in KwaZulu-Natal

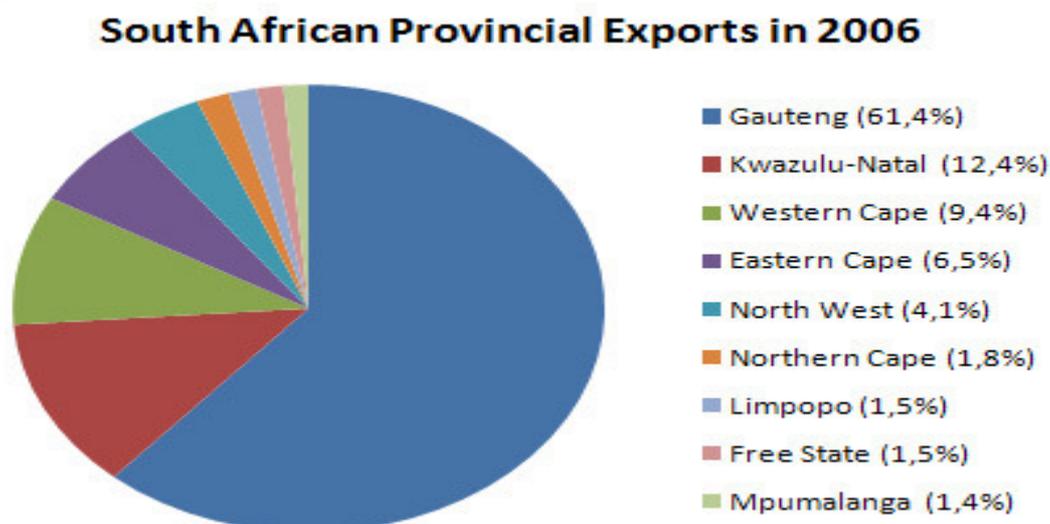
Figure 2.5 shows that KZN was second only to Gauteng in 2008 in terms of its economic contributor to South Africa.

<b>Economic indicators</b>			
<b>At current prices</b>			
	<b>GDP</b>	<b>GDP per</b>	<b>% Contribution</b>
	<b>Rbn</b>	<b>capital Rands</b>	<b>to National GDP</b>
<b>Eastern Cape</b>	<b>155.52</b>	<b>23,635</b>	<b>7.8</b>
<b>Free State</b>	<b>108.89</b>	<b>37,810</b>	<b>5.4</b>
<b>Gauteng</b>	<b>668.93</b>	<b>64,012</b>	<b>33.5</b>
<b>KwaZulu-Natal</b>	<b>324.22</b>	<b>32,069</b>	<b>16.2</b>
<b>Limpopo</b>	<b>138.16</b>	<b>26,217</b>	<b>6.9</b>
<b>Mpumalanga</b>	<b>138.73</b>	<b>38,644</b>	<b>6.9</b>
<b>North West</b>	<b>129.87</b>	<b>37,864</b>	<b>6.5</b>
<b>Northern Cape</b>	<b>44.16</b>	<b>39,079</b>	<b>2.2</b>
<b>Western Cape</b>	<b>290.61</b>	<b>55,248</b>	<b>14.5</b>

**Figure 2.5: Economic indicators**  
Source: Statistics SA, Annual GDP Estimates 2008

### 2.3.6. KwaZulu-Natal's contribution to South African Exports

KZN plays an important role in terms of South African's export trade. The province's share of overall South African exports has remained constant over a 10-year period, at around 17 percent (<http://sharondavis.co.za>). In 2006, KZN was the second largest export province out of the nine provinces in South Africa (see Figure 2.6).



**Figure 2.6: South African Provincial Exports in 2006**  
Source: <http://www.quantec.co.za/aboutus/news/200709>

"Foreign direct investment into KwaZulu-Natal is increasing exponentially," said Zweli Mkhize, Provincial Minister for Finance and Economic Development in his 2007/08 Budget Speech. "Between 2000 and 2005 over R27-billion was invested in the province by foreign companies."

#### **2.4. The characteristics of Chinese enterprises in KwaZulu-Natal**

In order to understand the characteristics of Chinese enterprises in KZN, the researcher visited some of these enterprises.

##### **2.4.1. Distribution by areas**

KwaZulu-Natal's economic activity is concentrated in three centers: Durban, Pietermaritzburg and Richards Bay (Altman, 2002). Most industries are located in Newcastle, Ladysmith, Dundee, Richards Bay, Durban, Hammarsdale, Richmond, Pietermaritzburg and Mandini (Official Yearbook, 2007/2008). Most of Chinese

enterprises in KZN are concentrated in developed areas, such as Durban, Pietermaritzburg, Richards Bay, and Port Shepstone as well. Chinese enterprises are also to be found in industrial hubs like Newcastle, Mandini, Springfield, and Pinetown.

#### 2.4.2. History

Chinese enterprises in KZN have a short history with most coming to the province after 1998 (Wan, 2007), when the bilateral relation between the People's Republic of China and the Republic of South Africa was established.

#### 2.4.3. Size of Chinese enterprises

The Africa Growth Institute Report in 2008 pointed out that KZN was one of three provinces (Gauteng, Western Cape, and KZN) in South Africa with the highest concentration of small and medium sized enterprises (SMEs). Many Chinese enterprises in KZN fit into this category (see Table 2.4). Family businesses are also a popular form for Chinese enterprises in the province.

**Table 2.4: The definition of SMEs in South Africa**

	Annual turnover	Employees
Micro	< 100,000	1 to 2
Very small	< 500,000	2 to 5
Small	R50-24m	2 to 20
Medium	24-60m	20 to 200

**Sources: KNC and associates (2003:3)**

#### 2.4.4. Distribution by industry

Although a few Chinese enterprises in South Africa have invested in advanced-technology industries (such as the automobile, electronic products, and energy industry), most of Chinese enterprises focus on labour-intensive industries, which include textiles, toys, restaurants, building materials, wholesale shops, and retail shops (Wan, 2007).

### **2.5. Reasons for investing in KwaZulu-Natal in the past decade**

Why have so many Chinese enterprises invested in KZN in the past decade? Logically, a Chinese enterprise must incur additional transportation costs and consider the cultural diversity and tax barriers and other risks if it decides to do business in KZN. Theoretically, the reasons for Chinese enterprises crossing borders and expanding their businesses in the province can be explained by the theories of FDI that can be traced back to the theory of transaction costs postulated by Hymer (1976) and Hennart (1982); the product life cycle theory put forward by Vernon (1966); the locational advantage theory proposed by Dunning (1977, 1980, 1981); the “follow the competitor” theory of Knickerbocker (1973); and the “follow the client” theory offered by Contractor, Kundu and Chun Hsu (2003).

In terms of these theories, the reasons why Chinese enterprises selected KZN as their business destination can be categorized into three aspects. These include:

#### 2.5.1. Locational aspects

Different countries are faced with different location factors because of the diversity of culture and the social background of the nation. Location can be a critical path to or

constraint on growth. There is no doubt that Chinese enterprises enter KZN after identifying location factors.

#### 2.5.1.1. Market size and attractiveness

According to Knickerbocker (1973), FDI was influenced by market size and attractiveness of the host country. A number of studies (Bagchi-Sen and Wheeler, 1989; McConnell, 1980; Mandell and Killian, 1974; Arpan and Ricks, 1995) have suggested that market-related factors, such as market proximity, population size and growth rates, and levels of per capital retail spending and regional infrastructure provision are of importance in attracting FDI at the regional level. A lot of Chinese enterprises came to KZN due to local market size and attractiveness. They measured local market size and attractiveness by examining the population, GDP growth, the inflation rate, the exchange rate, competition and other aspects before building businesses in the province. An investigation by Chandprapalert (2000); Erdal and Tatoglu (2001) found market size to be a very important determinant of FDI. They found the size of domestic markets to be positively related to FDI inflow.

#### 2.5.1.2. Growing demand

Galan and Benito (2001) showed that growing demand was an important determinant of FDI in the manufacturing sectors. Chinese enterprises in KZN are centered on manufacturing, such as clothing, footwear, equipment, and construction materials. Growing demand in the province is a huge opportunity for Chinese enterprises.

Economic growth in South Africa has been steady and unprecedented. It has been the world's 22nd-largest economy by gross domestic product (GDP), and 28th-largest by population. Annual GDP in South Africa rose by 5.1% after 2004. This increases its

attractiveness as a destination for Chinese investors.

### 2.5.2. Workforce aspects

Workforce factors refer to variables such as the cost of labour, and education levels, and skill levels (Sandhu and Fredericks, 2005). In general, wages are negatively associated with FDI (Kravis and Lipsey, 1989). The higher the cost of wages, the lower the level of FDI. The cost of labour is an important factor to attract foreign direct investment (FDI) (Kerr and Peter, 2001). Mbekeani (1999) in his research on FDI in South Africa found that multi-national companies (MNCs) are attracted to invest in countries with low-cost skilled labour. In the case of FDI into China, studies have shown that the cost of labour is a significant factor (Kerr and Peter, 2001; Zhang and Po Yuk 1998). According to a World Bank survey, Enterprises managers saw that worker skills as a more serious obstacle to their enterprises' operations and growth than any other area of the investment climate. The survey also found that per worker labour costs are very high in South Africa-over three and a half times higher than in the most productive areas of China, over two and a half times higher than in Brazil and Lithuania and over 75 percent higher than in Malaysia or Poland. Moreover, Rodrik (2007) points out that a cursory comparison of wages across countries showed that South African wages (in the formal sector) are quite high by the standards of countries at similar income levels (see Figure 2.7).



**Figure 2.7: Hourly wage cost**  
**Source: <http://www.global-production.com>**

### 2.5.3. Government Factors

Government factors include government incentives, economic policies, the political environment, and government promotions towards foreign direct investment (FDI) (Sandhu and Fredericks, 2005). Chinese enterprises will think of government factors before investing in KZN.

#### 2.5.3.1. Taxation in South Africa

According to Kerr and Peter, (2001), the tax regime is expected to have an inverse

relationship with FDI. In other words, lower taxes promote FDI and vice versa. They pointed out that tax incentives had a positive effect on FDI. According to statistics South Africa, South Africa's corporate tax rate was down to 28% for 2008/09 compares favorably against a number of developing countries, and the prospects of further reductions are good ([www.statssa.gov.za](http://www.statssa.gov.za)). Thus, taxation is an important determinant influencing Chinese enterprise development in KZN, currently and in the near future.

#### 2.5.3.2. The openness of the economy in KwaZulu-Natal

The openness of the economy also explains why many Chinese enterprises have been investing in KZN. According to Kerr and Peter (2001), the degree of openness has a positive impact on FDI for many countries. These findings were corroborated by Wilhelms (1998), who found economic openness to have a positive impact on FDI. KZN has been a more open economy since 1994.

#### 2.5.3.3. The local political environment

The political environment refers to the laws and regulations passed by governments that can affect the viability of MNCs' operations in the host country (Griffin and Pustay 1999). International evidence suggests that the regulatory environment can be a major hurdle to the survival and growth of small and new business (Mahadea and Pillay, 2008). Rigid labour regulations can discourage firms from hiring new workers. Close to one-third of enterprise managers said that labour regulations were a serious problem in South Africa. Objective indicators suggest that labour regulation is more rigid in South Africa than it is in many other middle income countries (World Bank, 2006). In the most recent Doing Business Report, a World Bank report that compares the burden of regulation across countries, South Africa ranked 28<sup>th</sup> - higher

than many developed economies. Chinese enterprises may be wary of the laws and regulations in KZN.

#### 2.5.3.4. The level of infrastructure in KwaZulu-Natal

The level of infrastructure in the host country refers to the quality of roads, railroad, dependable energy and telecommunication availability, credit and banking facilities and other financial, legal and transport systems (Wilhelms, 1998; Griffin and Pustay, 1999). Cheng and Kwan (2000) found that the quality of infrastructure is a very important factor influencing FDI. South Africa's transportation infrastructure is among the best in Africa, supporting both domestic and regional needs. South Africa also has several major ports that make it a central point for most trade in the Southern African region. KZN offers an established and advanced transport infrastructure and modes of transport to move people, goods and services between the main centres of its province, neighbouring countries and on a global scale. Categories of transport include rail, road, maritime, pipeline and air (<http://www.transnet.co.za>). Chinese enterprises in KZN can distribute their products and services throughout the Southern African region and the African continent by making use of South African transport systems.

### **2.6. Macro-environmental factors influencing Chinese enterprise development in KwaZulu-Natal**

The macro environment refers to the external factors which affect a company's planning and performance, and are beyond its control: for example, socio-economic, legal and technological change. According to the government report 'Towards a Ten Year Review' (The Presidency, 2004), South Africa has achieved levels of economic stability "not seen in the country for forty years." However, when Chinese enterprises are doing business in KZN, they must face heterogeneous environmental factors.

Johan, Ernst and Neels (2006) found that the heterogeneous environmental factors include four aspects:

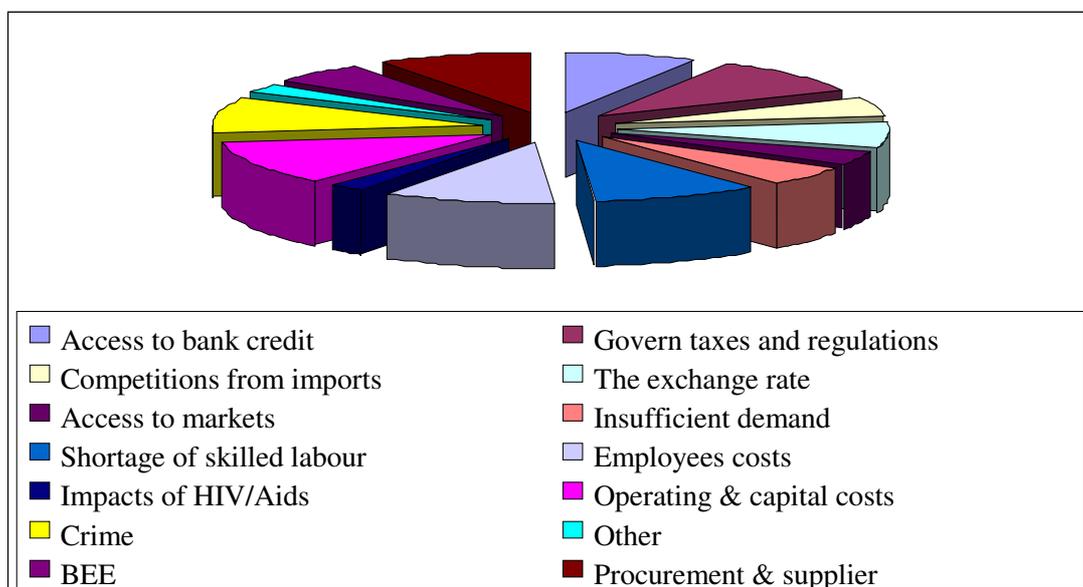
- Different cultures, languages, education levels, beliefs, and behaviors;
- Different political, economic, and legal systems;
- Different levels of technological development and infrastructure, and
- Different geographies, physical landscapes, climates, and means of accessibility.

These above factors are likely to be encountered by Chinese enterprises when engaging business activity in KZN. These factors pose a potential business risk to them in KZN. According to the Investment Climate Facility for Africa (ICF) Report, the eight factors that will be considered key to a healthy macro-environment in African countries and regions are:

- Property rights and contract enforcement
- Business registration and licensing
- Taxation and customs
- Financial markets
- Infrastructure facilitation
- Labour markets
- Competition
- Corruption and crime

As mentioned previously, most Chinese enterprises in KZN are Small, Medium and Micro Enterprises (SMMEs). According to the Africa Growth Institute Report in 2008, SMMEs had to face various business limitations in South Africa (see Figure 2.8). What factors could constrain the development of Chinese enterprises in KZN and

what could the consequences of these uncertain factors be? Using the PESTEL model Johnson, Scholes and Whittington (2006) identify some of the factors that could be closely related to chinese enterprises development in KZN.

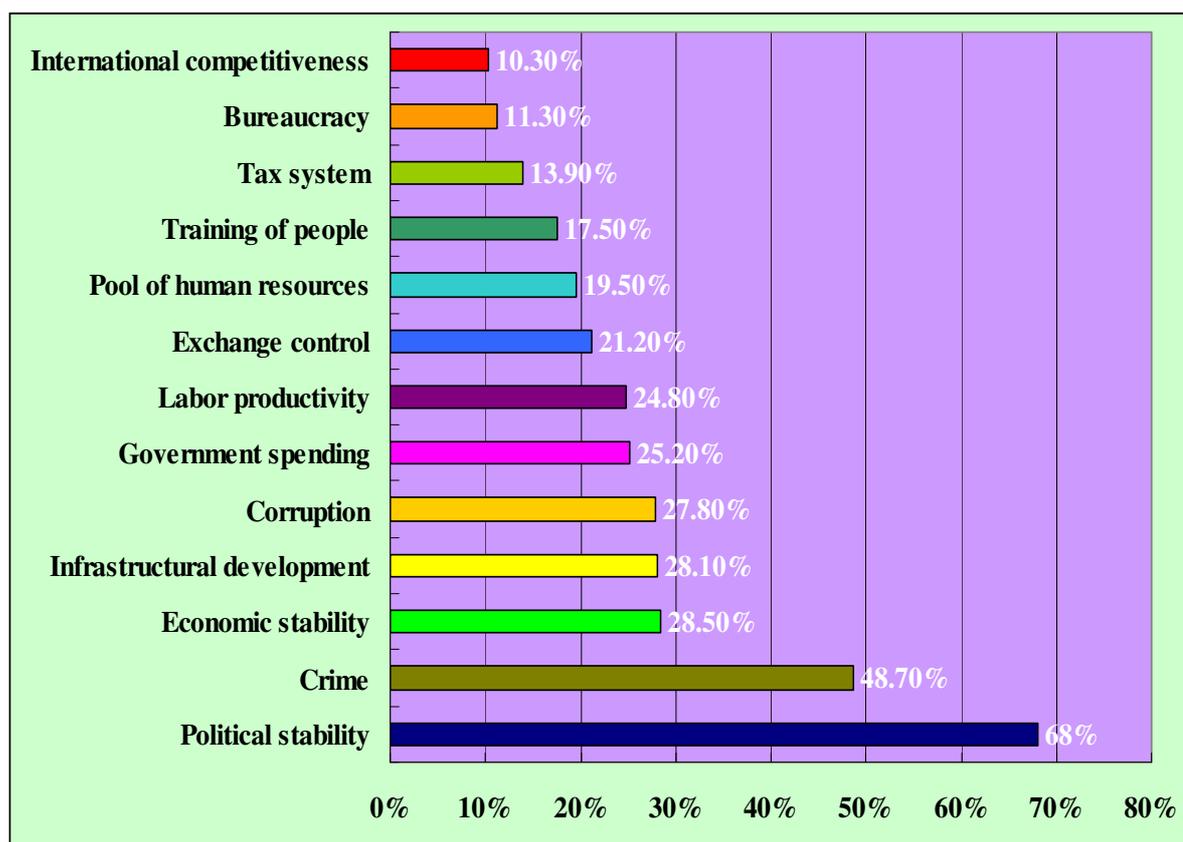


**Figure 2.8: Business limitations**

**Source: Africa Growth Institute, South African SMME Business Confidence Index Report: First Quarter 2008**

Recognition that a healthy investment climate is vital for the continent's economic growth led to the establishment of the Investment Climate Facility for Africa (ICF) in 2006. At the same time, according to the ICF Report in 2006, improvement of the macro-environmental is crucial for wider economic growth for many countries. Johan, Ernst and Neels (2006) point out key factors affecting FDI flows into Southern African countries (see Figure 2.9). Furthermore, the recent economic growth enjoyed by Africa can, at least partly, be attributed to strengthening macro environments across the continent (World Bank, "Africa economic outlook", 2007). Although a joint Department of Trade and Industry and World Bank Investment Climate Survey show that South Africa's investment climate is favorable when compared to the investment climates of other countries in Sub-Saharan Africa and other middle-income countries

throughout the world, the external economic environment still constrains the development of Chinese enterprises in KZN. This study focuses on seven macro-environmental factors that could constrain Chinese enterprise's development in KZN.

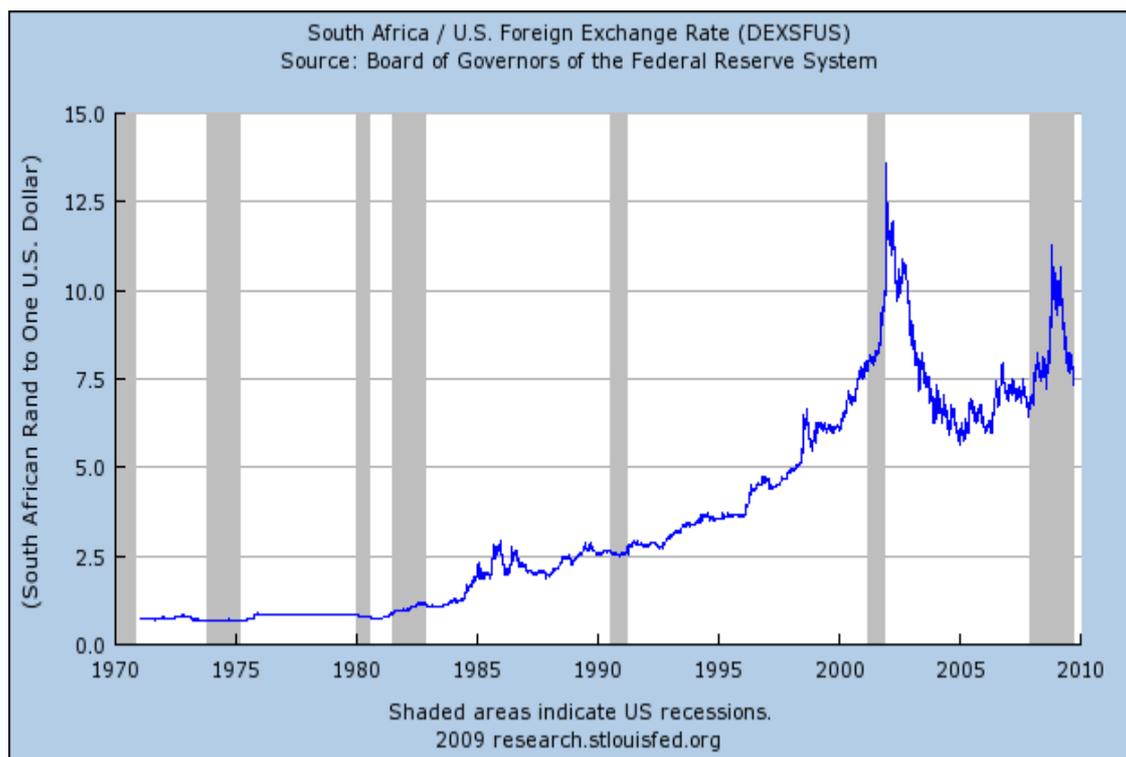


**Figure 2.9: Key factors affecting FDI flows into Southern African countries**  
 Source: Johan, Ernst and Neels (2006:411)

### 2.6.1. Exchange rate

Currency exchange rates define the value of different national currencies against each other (Moor, 2004). MacDermott (2008) defined the exchange rate as the ratio of the currency of the host country divided by that of the parent country. Rapid changes in the value of the local currency, coupled with fluctuating commodity prices affect revenue and cost projections (Singh, 2006:20). Exchange rate movements have long

been considered to be a crucial factor for FDI (Lee, 2005). Changes in exchange rates will change production costs if imported raw materials are an important factor of production, that is, variability in exchange rates will make profits uncertain (Ghatak, Healey and Jackson, 1995:245). Movement in the currency exchange rates has a direct impact on the development of Chinese enterprises in KZN because most Chinese enterprises import raw materials, semi-manufactured products and final-products from China. It is important that Chinese companies understand the movement in exchange rates. For a Chinese enterprise, the returns on investment in KZN will depend upon the exchange rates in South Africa (Ghatak, Healey and Jackson, 1995:245). The exchange rate between the Rand and US Dollar will be of particular concern to Chinese enterprises. Suppose a Chinese enterprise needs to import materials from China, which are worth a \$1,000. If the Rand to US dollar exchange rate is R8/\$1, then the total cost of materials is R8, 000. However, if the Rand to US dollar exchange rate is R9/\$, then the total cost of materials is R9, 000. In other words, they have to pay an additional R1, 000. When the exchange rate was weak, Chinese enterprise in KZN had to spend more money to purchase similar materials. The exchange rate has taken an unfortunate turn since 2005 (as shown in Figure 2.9).



**Figure 2.10: Exchange rate between Rand and US Dollar**  
**Source: Board of Governors of the Federal Reserve System**

On the other hand, the weak exchange rate means the depreciation of South Africa Rand. Depreciation causes the cost of capital to rise, reduces investments, reduces growth rates and leaves many developing economies in a poor state (<http://www.highbeam.com/doc>). According to a survey by the World Bank, despite South Africa's relatively strong macro-economic performance-modest GDP growth and moderate inflation-about one third of enterprise managers said that macroeconomic instability was a serious problem. This is due to exchange rate instability-in real terms the Rand has been one of the unstable of the World's major currencies. In a survey of South African clothing companies in KZN in 2007, 80 percent of the sample responded in the affirmative when asked whether the exchange rate had affected their operations.

### 2.6.2. Crime rate

According to a World Bank Report, the cost of crime, although lower than in the worst performing middle-income economies, is higher in South Africa than it is in many of its competitors. Enterprises in South Africa also considered crime a major problem for development. About 29 per cent of the respondents in the 2004 Investment Climate Survey rated crime as a major or very severe problem in South Africa (World Bank, 2006). Direct losses due to crime and the cost of security were equal to about 1.1 per cent of sales, a figure that is much higher than in many middle-income countries such as China, Poland, Brazil and even Russia (World Bank, 2004:12). Therefore, it is not surprising that crime has been a costly burden to Chinese enterprises in KZN. According to Business Against Crime (BAC) (2006), crime affects business directly, including theft of property and financial crimes. Crime has indirectly and directly reduced business confidence, led to a loss of investment, emigration and the steady erosion of the foundations upon which the economy is built. Furthermore, according to a World Bank report, high crime rates in South Africa remain a deterrent to the investment attractiveness of the country, even though improvements are apparent.

A Nedcor-sponsored study estimated that the cost of crime in South Africa was at least R31 billion in 1995. The figure is undoubtedly much higher now, as most South Africans think crime is still prevalent in every facet of business in South Africa. Crime statistics released by government in June 2008, for the period April 2007-March 2008, indicated that the number of reported murder cases in South Africa was 18 487 (giving a rate of 38.6 per 100 000 of the population, apparently one of the highest in the world). Although crime was not as big an issue in Gauteng, home robbery, one of the most-feared crimes increased from 2 667 to 3 480 cases (30 percent) in KZN, while business robbery increased from 997 cases to 1923 (92 per cent) over the same period (Natal Witness, 1/7/08). Per person government spending

on social security in KZN was higher than the national average (Statistics South Africa recently released a document tabling provincial expenditure in 2003/2004.).

What does crime mean for the macro-environment? Mauro (1995) has shown that crime, together with corruption, constitutes a serious obstacle to doing business and adds a transaction cost. Mahadea and Pillay (2008) point out that crime hinders entrepreneurial activity, viability and profitability of firms and slows down business development and the growth of the economy. A recent study commissioned by the Presidency confirms this: over half of South Africa's small businesses were victims of crime in 2008, while about a quarter were reluctant to expand or employ more labour; as they could lose at least a fifth of their annual turnover to crime through direct and indirect costs (Benjamin, 2008). Although authorities have set a target of reducing "contact crimes", the Police Service's crime statistics released in September 2006 showed the crime rate increased by 11.3 per cent between April 1994 and March 2006 in South Africa. Moreover, the number of serious crimes remained high at some 2.17 million in 2005/06, and some of them, including homicides, residential robberies and especially drug-related crimes are still on the rise. (World Bank, Africa economic outlook, 2007)

### 2.6.3. Infrastructure services

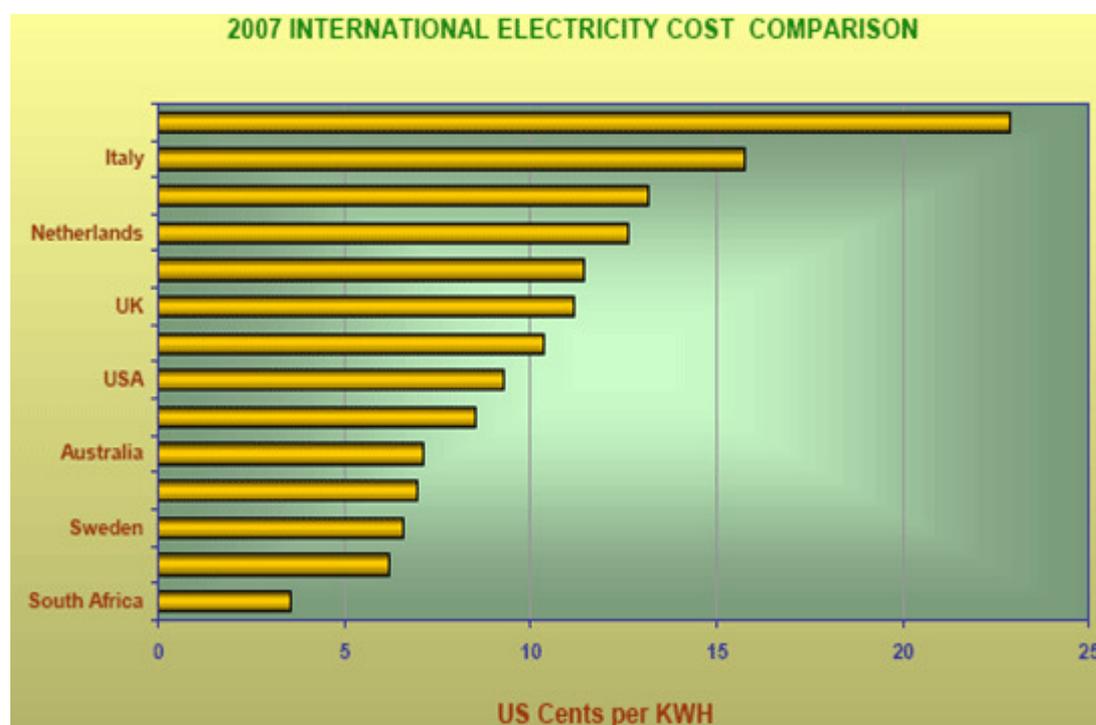
Infrastructure services include power, roads, transport services, information and communication technologies, and other exigencies as well (Mahadea and Pillay, 2008:46). In the host country, the level of infrastructure refers to the quality of roads, railroad, dependable energy and telecommunication availability, credit and banking facilities and other financial, legal and transport systems (Wilhelms, 1998). Wilhelms (1998) econometric study also found that institutional factors such as commercial energy are positively correlated with FDI. Cheng and Kwan (2000) found that quality of infrastructure is a very important factor influencing FDI. Dunning (1981), he points

out that the level of infrastructure development was a more important determinant of FDI for MNCs. Root and Ahmed (1978) in their empirical investigation also found that effective services in terms of adequate infrastructure in the area of banking, finance, insurance, telecommunication, transportation and distribution had a positive impact on the ability of the host country to attract FDI.

Infrastructure, in all its forms, is a catalyst for development. Well-planned and managed infrastructure can enhance costs. It enables established businesses to expand their production levels. It also promotes trade and supports economic concentration (<http://www.anc.org.za/ancdocs/history/mbeki>). KZN has a well-developed infrastructure of roads, railways and telecommunications, plentiful semi-skilled labour, and a sophisticated commercial and financial business structure, complemented by a full range of professional services, good access to overseas markets, quality housing, and excellent medical, social and cultural facilities. Modern industrial parks are found throughout the province and standard factory buildings are available, while custom-built factories can be constructed according to specification.

In addition, KZN is experiencing the biggest investment in infrastructure programmes in its history. Then KZN Premier S'bu Ndebele commented in his State of the Province Address that the province would enter a robust investment period. The projects completed for the 2010 FIFA World Cup served as a main catalyst for the development of transport infrastructure in the province, and integrated road, rail, air and marine transport in an effort to boost economic growth in KZN, with an emphasis on incorporating previously marginalized communities into the urban framework. Local government has identified massive infrastructure projects as key to boosting the KZN's economic growth rate and creating employment, and is spending billions of Rands on getting the investment ball rolling. Recognising the economic importance of a good road structure, the KZN Department of Transport has instituted an ongoing, long-term programme to continually upgrade the province's road network.

Although energy costs have been increased, South Africa's energy costs are still among the lowest in the world (see Figure 2.11). Compared to most industrial countries in the world, South Africa has very competitive prices for industrial and commercial electricity. For example, the price of a kilowatt of electricity in South Africa is only one third of the price in the UK. However, power shortages have become a negative factor for the level of infrastructure in KZN. KZN receives its electricity supply via the national supply grid from the state-owned electricity supplier, Eskom. The municipalities carry out local reticulation in the cities. In 2007 Eskom started experiencing a lack of capacity in electrical generating and reticulation infrastructure. This led to an inability to meet the routine demands of industry and consumers, resulting in countrywide rolling blackouts. The supplier has been widely criticized for failing to adequately maintain existing power stations or plan for and construct sufficient electrical generating capacity.



**Figure 2.11: World electricity prices 2007**  
Source: United Nations

#### 2.6.4. Inflation

Hellerstein (1997) defines inflation as “a sustained rise in the general price level”. According to Reilly and Brown (2006), higher inflation would cause higher market interest rates, increases uncertainty about future prices and costs, and harms firms that cannot pass on their cost increases. Although South African inflation rate has declined significantly during the past 10 to 15 years (Philip Mohr, 2008:1), inflation is still one of the most hotly debated economic issues in KZN. According to a survey of leading economists by I-Net Bridge, the annual inflation rate of KZN was 9.4% in June 2009. It was higher than the headline inflation, which was the inflation target of South African Reserve Bank. Statistics released in June 2008 by Statistics South Africa showed that the food inflation averaged 18, 9 percent in KZN and was six percentage points above the national average of 18, 3 percent.

##### 2.6.4.1. Real rates of return

Why do Chinese enterprises worry about inflation? The answer is that a high inflation rate would reduce their rates of return (Ghatak, Healey and Jackson, 1995). According to Ghatak, Healey and Jackson (1995), the nominal rate of return was defined as the sum received next year, minus the sum invested now, divided by the sum invested now. The nominal rate of return can be formulated by the following:

$$\text{Nominal rate of turn} = \frac{\text{Sum received next year} - \text{Sum invested now}}{\text{Sum invested now}}$$

Assume that a Chinese enterprise invests R100, 000 this year and expect R150, 000 next year. The nominal rate of return of Chinese enterprise is:

$$\text{Nominal rate of turn} = \frac{150,000-100,000}{100,000} = 15\%$$

Inflation should be taken into account by investors in investment decisions (Frost and Hager, 1986). The real rate of return for Chinese enterprises must take into account the inflation rate in KZN. According to Ghatak, Healey and Jackson (1995), the real rate of return can be calculated by the following formulation:

$$\text{Real rate of return} = \text{Nominal rate of return} - \text{rate of inflation}$$

According to Table 2.5, KZN headline inflation rate in 2008 was 12.3%. Thus, the Chinese enterprise's real rate of return is 2.7% (15% minus 12.3%) in the above example. Higher inflation rate in South Africa will greatly reduce Chinese enterprises' rate of return in KZN.

**Table 2.5: Headline inflation rate in KwaZulu-Natal (KZN) 2008**

<b>Geographical Area</b>	<b>Headline Inflation (%)</b>
KwaZulu-Natal	12.3
Province excluding rural areas	12.2
Durban/Pinetown	12.2
Pietermaritzburg	14.7
Other Urban areas	11.5
Rural areas	13.2

**Source: Statistics South Africa**

#### 2.6.4.2. Inflation's inconveniences

The inflation rate not only impacts on the real rate of return for Chinese enterprises, but also created more inconveniences in the operation for Chinese enterprises in KZN. Economists in the United States (US) have analyzed the inconveniences caused by

inflation. They highlight two aspects as follows (Hellerstein, 1997):

- i. Menu costs: Firms must alter their nominal prices to keep up with inflation. These adjustments require both time and money. The classic restaurant example underlines the time the manager must spend to set new prices and the money then spent to print new menus.
- ii. Shoe leather costs: People must spend more time searching for good prices when inflation is high, as relative prices may be more variable.

It is generally accepted that higher inflation is indicative of poor economic performance and is a major determinant of FDI (Hamadziripi, 2008). In this regard, higher inflation could scare investors.

#### 2.6.5. Union problems

Unions can be an instrument of social change but even when they play a larger role in society, their core activity remains focused at the workplace. Finnemore and Merwe (1989:39) define a trade union as an organization of workers who by collective action, strive to defend and advance their interests. In many instances, union actions have the effect of restraining productivity or efficiency (Slichter, Healy and Livernash, 1960). Sutherland (2006) defined a trade union as a continuous association of wage earners for the purpose of maintaining or improving the conditions of their working lives. He argued that unions go beyond wage negotiations, maintaining or improving conditions of working lives in the 21<sup>st</sup> century. Research by Freeman and Medoff (1984) indicates that unions can have a negative impact on competitiveness. They do this by using their monopoly position to drive up wages and to introduce restrictive work practices that inhibit management's ability to introduce productive work practices. In

other words, unions use their monopoly power to force employers to pay better wages and benefits. Freeman and Medoff also argued that unions greatly affect outcomes such as productivity. Vedder and Gallaway (2002) point out that the union could reduce the level of an organization's productivity. As a result, output will decline. In addition, unions impact on the organizational climate and workplace culture in a variety of ways (Verma, 2005). Verma (2005) also found that managements in non-union environments are able to build a climate of effective communication and strong identification with organizational goals. This finding is supported by Cohen-Rosenthal, Edward and Burton (1993), who note that unions are a barrier to effective communications with management.

Although trade unions in South Africa protect members against unfair labour practices, they also have some negative effects enterprises, especially for foreign organizations (Cebekhulu, 2001). Present day economists and entrepreneurs in South Africa have identified unions as a problem, and state that they are a major limitation for business development. Rodrik (2008) notes that trade unions played an important role in wage determination in South Africa (Rodrik, 2008). In a survey of South African clothing companies in KZN in 2007, more than eight per cent of respondents believed that unions had affected their businesses recently. Palmi (2007) points out that a notable concern relating to union activity is a disturbing outcome.

#### 2.6.6. Taxation

In South Africa, government revenue is derived primarily from a residence-based income tax on business, individuals and trusts and a 14% value added tax (VAT) on nearly all goods and services (South Africa at a Glance, 2009-10). The corporate tax rate in South Africa is far lower than in the US, Australia, Brazil, India and China (see Figure 2.11). However, high tax rates and complex tax administration are constraints to enterprise development and can force firms to operate in the "grey" economy,

where the pay-off from productive and non-productive activities can be high, with possible tax evasion or avoidance (Mahadea and Pillay, 2008). Mahadea and Pillay (2008) also showed that the cost of tax compliance is regressive, and that the annual cost of tax compliance for the small business (with an annual turnover of about R1m), is almost 3 per cent of turnover in South Africa. SMMEs compliance cost in South Africa was R79 billion (about 6.5 per cent of SA's GDP) in 2004, whereas in OECD (the Organization for Economic Co-operation and Development) countries it was less than 3 percent (Theunissen, 2006). According to a World Bank Report (2007), companies in South Africa take about 350 hours (almost nine standard working weekdays) a year for a medium-sized firm to prepare, file and pay taxes, a much higher figure compared with the U.K.(105 hours) and Botswana (140 hours).

<b>COMPARATIVE TAX RATES (%)</b>		
	<b>Corporate</b>	<b>Value Added</b>
<b>South Africa</b>	<b>28</b>	<b>14</b>
Argentina	35	21
<b>Australia</b>	<b>30</b>	<b>10</b>
Brazil	34	17-25
<b>China</b>	<b>25</b>	<b>17</b>
Czech rep.	21	90
<b>France</b>	<b>33.3</b>	<b>19.6</b>
Germany	30-33	19
<b>India</b>	<b>30-40</b>	<b>12.5</b>
Italy	31	20
<b>Japan</b>	<b>30</b>	<b>5</b>
Poland	19	22
<b>Russia</b>	<b>20</b>	<b>18</b>
Spain	30	16
<b>Sweden</b>	<b>26</b>	<b>25</b>
UK	28	15
<b>USA</b>	<b>35</b>	<b>15</b>

**Figure 2.12: Comparative tax rates around the world**  
**Source: ACCF, Worldwide-tax**

In South Africa, small business corporations are taxed at a rate of 0 per cent on the

first R40,000 of taxable income, at 10 percent for income between R40,001 and R300,000, and at 29 per cent for amounts above R300,000. VAT (Value Added Tax) and income tax can be considered as an important factors (Mahadea and Pillay, 2008) constraining business growth in KZN for most Chinese enterprises. Taxes affect business in various ways, which include taxes “take up too much time/attention”, “time involved in paperwork/record keeping”, “impact of paying tax on cash flow”, and “penalties for late payment are excessive” as well as “competition from businesses that avoid tax” (Mahadea and Pillay, 2008).

### 2.6.7. Competition

An entrepreneur cannot exist without competition because a business must face competition from different sources. Though a business might does not want competition from other businesses, inevitably most will face a degree of competition.

A business could react to an increase in competition (e.g. a launch of a rival product) in the following ways (<http://tutor2u.net>):

- Cut prices (but can reduce profits)
- Improve quality (but increases costs)
- Spend more on promotion (e.g. do more advertising, increase brand loyalty; but costs money)
- Cut costs, e.g. use cheaper materials, make some workers redundant

Porter (1985) point out that competition can severely constrain the growth of a business; unless a firm has effective mechanisms like overall cost leadership,

differentiation and focus strategies. Most Chinese enterprises have put sufficient effort into confronting this issue although. They have to face various competitions from different sources. Surveys have confirmed that disregard of competition was listed a major cause of business failure ([www.fin24.co.za](http://www.fin24.co.za)). To survive in the current market, Chinese enterprises should be able to monitor competition all the time because competition may come from their followers or even their business partners. Competitors may undertake promotional strategies which are uneconomical for Chinese enterprises in KZN. Today's cutthroat competitive environment in KZN has greatly harmed the development of Chinese enterprises, especially in the clothing and textile industry (LingLing, 2003).

## 2.7. Conclusion

For a Chinese enterprise to succeed in KZN, one needs to consider not only the internal environment of the company, but also the external factors – the macro environment. The literature review focused on macro-environmental factors related to the development of Chinese enterprises in KZN. This will assist the researcher in formulating a theoretical framework for the study. The empirical study is presented in the next chapter.

## CHAPTER THREE

### RESEARCH METHODOLOGY

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#### 3.1. Introduction

This chapter outlines the research methodology and the techniques used to acquire data for analysis. It deals with the type of study, the qualitative and quantitative research design, the time horizon, the sampling design of the study, data collection, the questionnaire used for the study, measuring instruments, data analysis and the conclusion. The purpose of this research is to investigate macro-environmental factors influencing the development of Chinese enterprises in KwaZulu-Natal (KZN).

#### 3.2. Type of Study

The type of design applied for the study is exploratory in nature. Robson (2002) states that an exploratory study is a valuable means of finding out ‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light’. Sekaran (2003), adds that an exploratory study is undertaken when very little is known about the situation at hand, or no information is available on how similar problems or research issues have been solved in the past. The researcher has made use of the exploratory study technique because there is little understanding of the macro-environmental factors influencing the development of Chinese enterprises in KZN in recent years. An exploratory study is particularly useful if one wish to clarify one’s understanding of a problem, such as when one is unsure of the precise nature of the problem (Mark, Philip,

and Adrian, 2007:133). Through exploration, researchers develop concepts more clearly, establish priorities, develop operational definitions, and improve the final research design (Cooper and Schindler, 2008:145). In this study, the exploratory study aims at bringing macro-environmental factors influencing the development of Chinese enterprises in KZN to the fore. “In essence, exploratory studies are undertaken to better comprehend the nature of the problem since very few studies might have been conducted in that area...exploratory studies are also necessary when some facts are known, but more information is needed for developing a viable theoretical framework... exploratory studies are important for obtaining a good grasp of the phenomena of interest and advancing knowledge through subsequent theory building and hypothesis testing” (Sekaran 2003:135). Finally, exploration may also save time and money in the whole process of research (Cooper and Schindler, 2008:145).

### **3.3. Qualitative and Quantitative Research Design**

The objectives of exploration may be accomplished with different techniques (Cooper and Schindler, 2008:146). Although exploration relies more heavily on qualitative techniques, both the qualitative and quantitative method of research will be applied in this study. The terms “quantitative” and “qualitative” are used widely in business and management research to differentiate both data collection techniques and data analysis procedures. A qualitative method is used predominantly as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data (Mark, Philip and Adrian, 2007:145). Moreover, according to Sekaran (2003:185-191), qualitative research includes an “array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world.” Qualitative techniques are used at both the data collection and the data analysis stages of a research project. At the data collection stage, the array of techniques includes focus groups, individual

depth interviews, case studies, ethnography, grounded theory, action research, and observation. During analysis, the qualitative research includes behavioral observations, debriefing of observers, and artifacts. The researcher chose a qualitative methodology based on the project's purpose, schedule, budget, issues or topics being studied, the target group required, and the researcher's skill, personality, and preferences. Qualitative research provides well grounded, rich descriptions and explanations of processes occurring in the local context.

In contrast, quantitative research is predominantly used as a synonym for any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data (Mark, Philip and Adrian, 2007:145). Cooper and Schindler (2008) point out that quantitative research attempts precise measurement of something. In quantitative research, data often consist of participant responses that are coded, categorized, and reduced to numbers so that these data may be manipulated for statistical analysis. Quantitative research is the systematic scientific investigation of properties and phenomena and their relationships. The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to natural phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and the mathematical expression of quantitative relationships. Quantitative methods are research techniques that are used to gather quantitative data - information dealing with numbers and anything that is measurable. Statistics, tables and graphs, are often used to present the results of these methods ([www.en.wikipedia.org](http://www.en.wikipedia.org)).

### **3.4. Time horizon**

The time horizon of this study is cross-sectional where there is representation at only one point in time. "A study can be done in which data are gathered just once, perhaps

over a period of days or weeks or months, in order to answer a research question. Such studies are called one-shot or cross-sectional studies” (Sekaran, 2003: 135). Furthermore, according to Mark, Philip and Adrian (2007) the cross-sectional study refers to a particular phenomenon at a particular time. In this study, data was collected via questionnaires in September 2009.

### **3.5. Sampling design of study**

Sekaran (2003) defines sampling as the process of selecting a sufficient number of elements from the population so that by studying the sample and understanding the properties of the characteristics of the sample subjects (statistics), the properties or characteristics may be generalized to the population elements (parameter). He adds that in research investigations involving several hundreds and even thousands of elements, it would be practically impossible to collect data from, or test, or examine every element. For some research questions it is possible to collect data from an entire population as it is of a manageable size. However, you should not assume that a census would necessarily provide more useful results than collecting data from a sample which represents the entire population (Mark, Philip and Adrian, 2007). Henry (1990) argues that using sampling makes possible a higher overall accuracy than a census. Furthermore, Cooper and Schindler (2008) point out that the basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population. In conclusion, there are several compelling reasons for sampling, including (1) lower cost, (2) greater accuracy of results, (3) greater speed of data collection, and (4) availability of population elements (Cooper and Schindler, 2008:375).

In the process of sampling design, the five terms – population, element, population frame, sample, and subject - should be identified by researcher first (see Table 3.1).

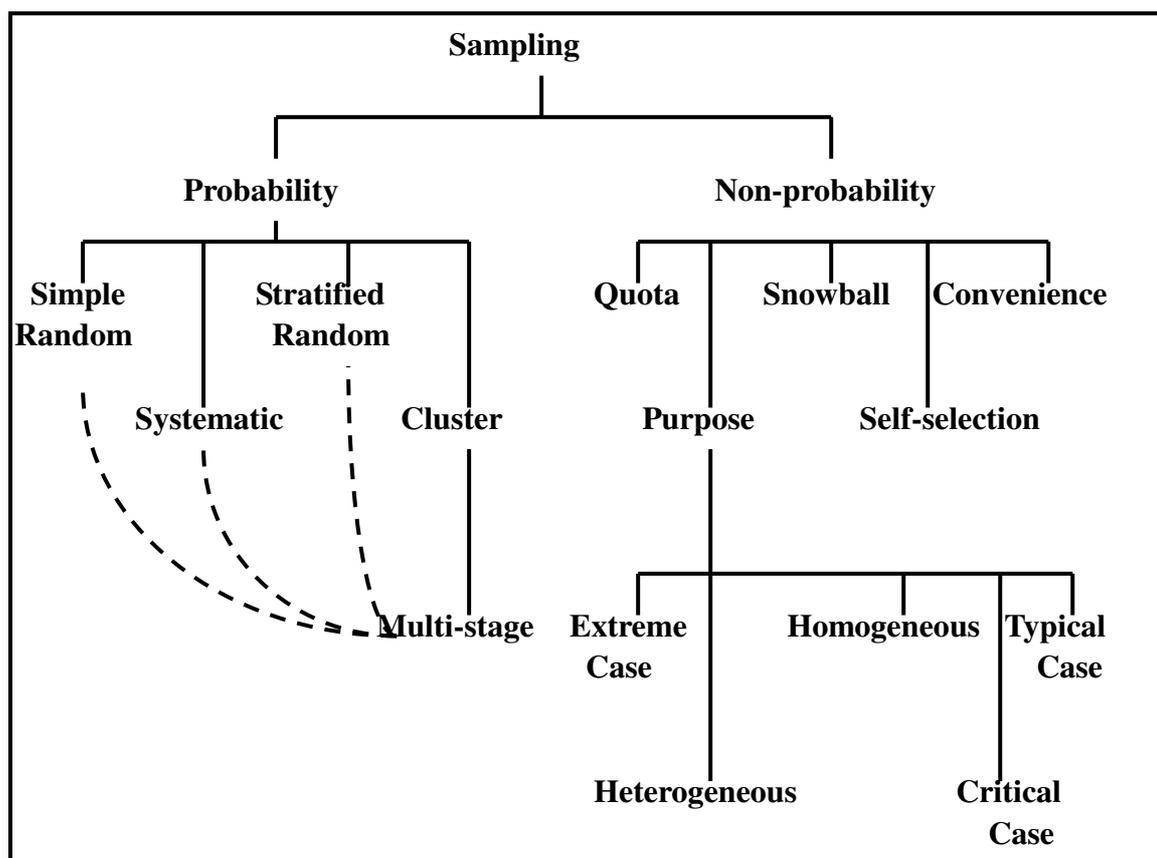
**Table 3.1 : Terms of sampling**

<b>Terms</b>	<b>Definitions</b>	<b>In the study</b>
<b>Population</b>	Refers to the entire group of people, events, or things of interest that the researcher wishes to investigate	All owners of Chinese enterprises in KZN
<b>Element</b>	Is a single member of the population	An owner of Chinese enterprises in KZN
<b>Population frame</b>	Is a listing of all the elements in the population from which the sample is drawn	Chinese enterprise owners who have invested in KZN
<b>Sample</b>	Is a subset of the population	50 owners of Chinese enterprises in KZN
<b>Subject</b>	Is a single member of the sample	Owners from 50 Chinese enterprises in KZN

**Source: Uma Sekaran (2003:265-266)**

Basically, there are two major types of sampling design: probability and non-probability sampling. Both types include various sampling techniques (see figure 3.1) (Mark, Philip and Adrian, 2007:207). When elements in the population have a known chance of being chosen as subjects in the sample, we resort to a probability sampling design (Sekaran 2003:270). Mark, Philip and Adrian (2007) note that probability sampling is most commonly associated with survey-based research strategies where you need to make inferences from your sample about a population to answer your research question(s) or to meet your objectives. According to Sekaran (2003), simple random sampling is used when researchers draw the elements from the population, it is most likely that the distribution patterns of the characteristics researchers are interested in investigating in the population are also likewise distributed in the subjects researchers draw from for their sample. Furthermore, simple random sampling involves you selecting the sample at random from the sampling frame using a computer (Mark, Philip and Adrian, 2007:215). Based on the analysis above, the probability sampling method and simple random sampling will be

used for this study.



**Figure 3.1: Sampling techniques**  
 Source: Mark, Philip and Adrian, 2007:207

### 3.6. Data collection

It is logical to assume that the way researchers collect their data is going to yield valid data (Mark, Philip and Adrian, 2007:152). Appropriate data collection methods enhance the value of the research. There are several data collection methods, each with its advantages and disadvantages. Data can be collected in a variety of ways. Interviewing, administering questionnaires, and observation a phenomena are the three main data collection methods in the survey research (Sekaran, 2003:223). In this study, the researcher administered questionnaires to collect data.

A questionnaire is a pre-formulated written set of questions to which respondents

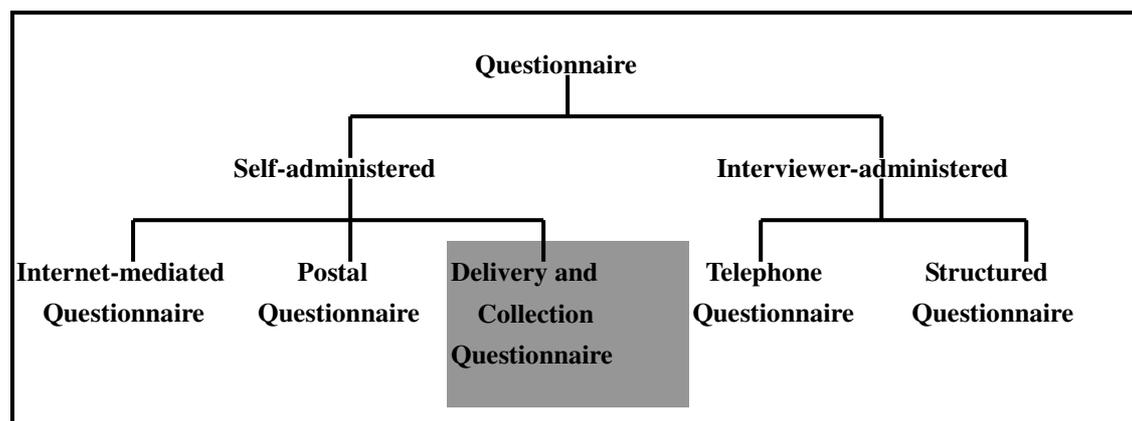
record their answers, usually within rather closely defined alternatives. Questionnaires are an efficient data collection mechanism when the researcher knows exactly what is required and how to measure the variables of interest. Questionnaires can be administered personally, mailed to the respondents, or electronically distributed (Sekaran, 2003: 236).

According to Mark, Philip and Adrian (2007), different types of questionnaires can be used during the data collection stage (see Figure 3.2). The choice of type of questionnaire is obviously important. Mark, Philip and Adrian (2007) note that the choice of questionnaire will be influenced by a variety of factors related to your research question(s) and objectives, and in particular the:

- Characteristics of the respondents from whom researcher wish to collect data;
- Importance of reaching a particular person as respondent;
- Importance of respondents' answers not being contaminated or distorted;
- Size of the sample researcher require for their analysis, taking into account the likely response rate;
- Types of question researcher need to ask to collect the data; and
- Number of questions researcher need to ask to collect the data.

They also point out that the choice of questionnaire will be affected by the resources the researcher has available and in particular the:

- Time available to complete the data collection;
- Financial implications of data collection and entry;
- Availability of interviewers and field workers to assist; and
- Ease of automating data entry



**Figure 3.2: Types of questionnaire**  
**Source: Mark, Philip and Adrian (2007:357)**

In this study, personally administered questionnaires will be applied by the researcher as shown in the shaded portion in Figure 3.2. Researcher will deliver questionnaires by hand to each respondent and collect the questionnaire at another point in time. The main advantage of this method is that the researcher(s) can collect all the completed responses within a short period of time. Any doubts that the respondents might have on any question could be clarified on the spot. Moreover, the researcher(s) is also afforded the opportunity to introduce the research topic and motivate the respondents to offer their frank answers (Sekaran, 2003: 236).

### 3.7. The Questionnaire

A questionnaire (see appendix A) was constructed as the primary data collection method. The questionnaire was designed according to the research purposes and conceptual framework described in the previous chapter. The questionnaire format was chosen because of time and resource constraints on the part of both the respondents and the researcher. To gather more precise information through the questionnaire, pre-testing took place where the questionnaire was given to nine respondents to establish whether it was user-friendly and ensures that all the questions were clear. Based on 2.4.1 discussion in Chapter Two, Fifty of the respondents in this

study were selected from different areas where Chinese enterprises were concentrated in KZN. The researcher found respondents by Chinese community and sent questionnaires to them by e-mail and hand. The researcher sent fifty questionnaires to fifty owners of Chinese enterprise in KZN. However, three questionnaires were not returned by respondents. It means that the response rate was 94 per cent. According to Sekaran (2000:237), a 30% response rate is considered acceptable. The questionnaire in this study consisted of 29 questions with four sections, as follows:

**Table 3.2: The sections of the questionnaire**

	Content
Section one	Personal details
Section B	Reasons for investing in KwaZulu-Natal
Section C	Macro-environmental factors
Section D	Aspects influencing by macro-environmental factors

### 3.8. Measuring instruments

Measurement is an integral part of research design. Measurement in research consists of assigning numbers to empirical events, objects or properties, or activities in compliance with a set of rules. The goal of measurement is to provide the highest-quality, lowest-error data for testing hypotheses, estimation or prediction, or description. Furthermore, the object of measurement is a concept, the symbols researcher attach to bundles of meaning that they hold and share with others (Cooper and Schindler, 2008:279). A scale is a tool or mechanism by which individuals are distinguished as to how they differ from one another on the variables of interest to the study. The scale or tool could be a gross one in the sense that it would only broadly

categorize individuals on certain variables, or it could be a fine-tuned tool that would differentiate individuals on the variables with varying degrees of sophistication (Sekaran, 2003:185). According to Sekaran (2003), there are four basic types of scales (as shown in Table 3.3).

**Table 3.3: Four types of scales**

Type	Definition
Nominal scale	A nominal scale is one that allows the researcher to assign subjects to certain categories or groups. It splits data into groups.
Ordinal scale	An ordinal scale not only categorizes the variables in such a way as to denote differences among the various categories, it also rank-orders the categories in some meaningful way. It ranks data in some order
Interval scale	An interval scale allows us to perform certain arithmetical operations on the data collected from the respondents. It sets data on a continuum.
Ratio scale	A ratio scale not only measures the magnitude of the differences between points on the scale but also taps the proportions in the differences. It starts with absolute zero and indicates proportion.

Scales in this study include nominal, interval, and ratio. (See Appendix 1 for questionnaire).

Different rating scales are used in organizational research. This study mainly uses the category scale (which uses multiple items to elicit a single response (Sekaran, 2003:197)), and the likert scale (which is designed to examine how strongly subjects agree or disagree with statements on a 5-point scale (Sekaran, 2003:197)).

### **3.9. Data analysis**

Data from closed questions was coded and captured on SPSS Version 13.0 where it was analyzed using the descriptive statistical techniques. Graphical techniques and visual representations were used to represent the statistical data results. Examples of these would include frequency tables, and bar, and pie charts. The analysis revealed some interesting findings, which are discussed in the next chapter.

### **3.10. Conclusion**

A clear and rational research methodology and technique is an extremely important for the researcher. It will provide clear guidelines for the study. In this chapter, the researcher clarified the type of study, the qualitative and quantitative research design, time horizon, sampling design, data collection, questionnaire, measuring instrument, data analysis, and conclusion. It designs the research methodology and procedures utilized to attain data for analysis.

## CHAPTER FOUR

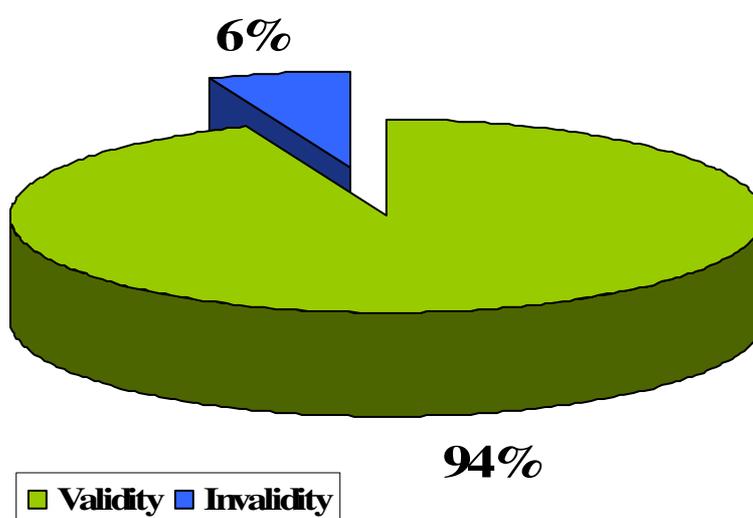
### Findings

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#### 4.1. Introduction

The researcher sent questionnaires to 50 owners of Chinese enterprises in KZN. 47 respondents completed the questionnaire. Therefore, the response rate is 94%, that is, the response rate of the questionnaire is 94 percent (see Figure 4.1). According to Sekaran (2003:237), a 30% response rate is considered acceptable.



**Figure 4.1: The response rate in this study**

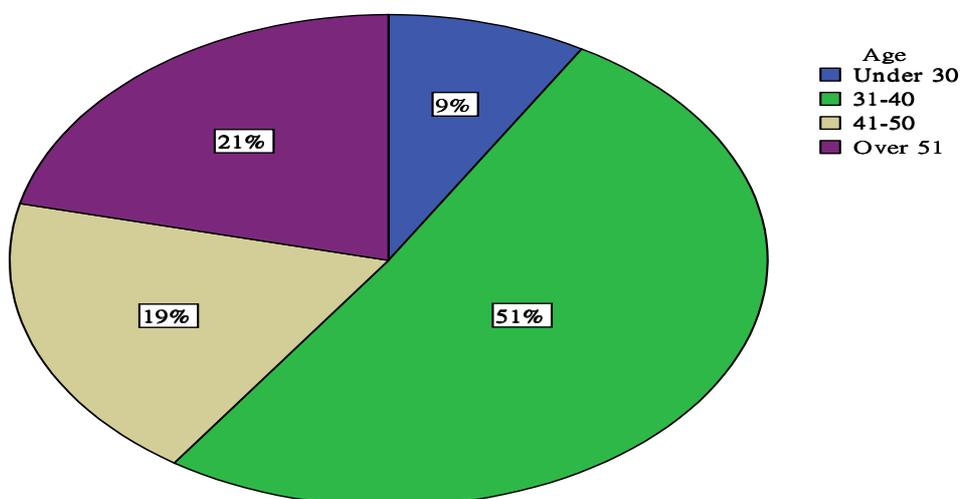
Statistical analysis was conducted on each and every question asked. Descriptive statistics involve transformation of raw data into a form that provides information to describe a set of factors in a situation. This is done through ordering and manipulation of the raw data collected. The exploratory data analysis approach emphasizes the use

of diagrams to understand the data. Descriptive statistics enable the researcher to describe and compare variables numerically (Mark, Philip and Adrian, 2007:433-434). Descriptive statistics are provided by frequencies, measures of central tendency, and dispersion (Sekaran 2003:135). The data was analyzed by using SPSS (Statistical Package for the Social Sciences) and the results will be interpreted as follows.

## 4.2. Biographical aspects of the sample

The following Tables and Figures present the findings related to biographical aspects of the sample.

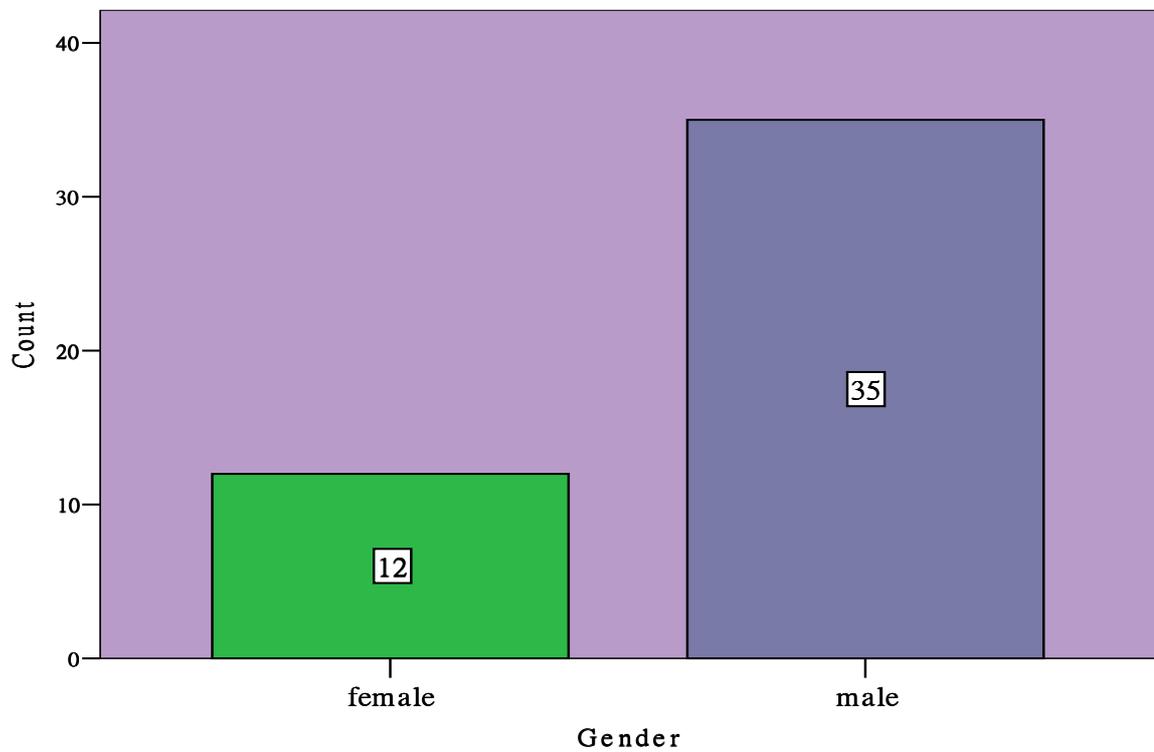
### 4.2.1. Age of respondents



**Figure 4.2: Age of respondents**

As Figure 4.2 shows, 9% of respondents are under 30 years of age, 51% of respondents are between 31 and 40, 19% of respondents are between 41 and 50, and 21% of respondents are over 51.

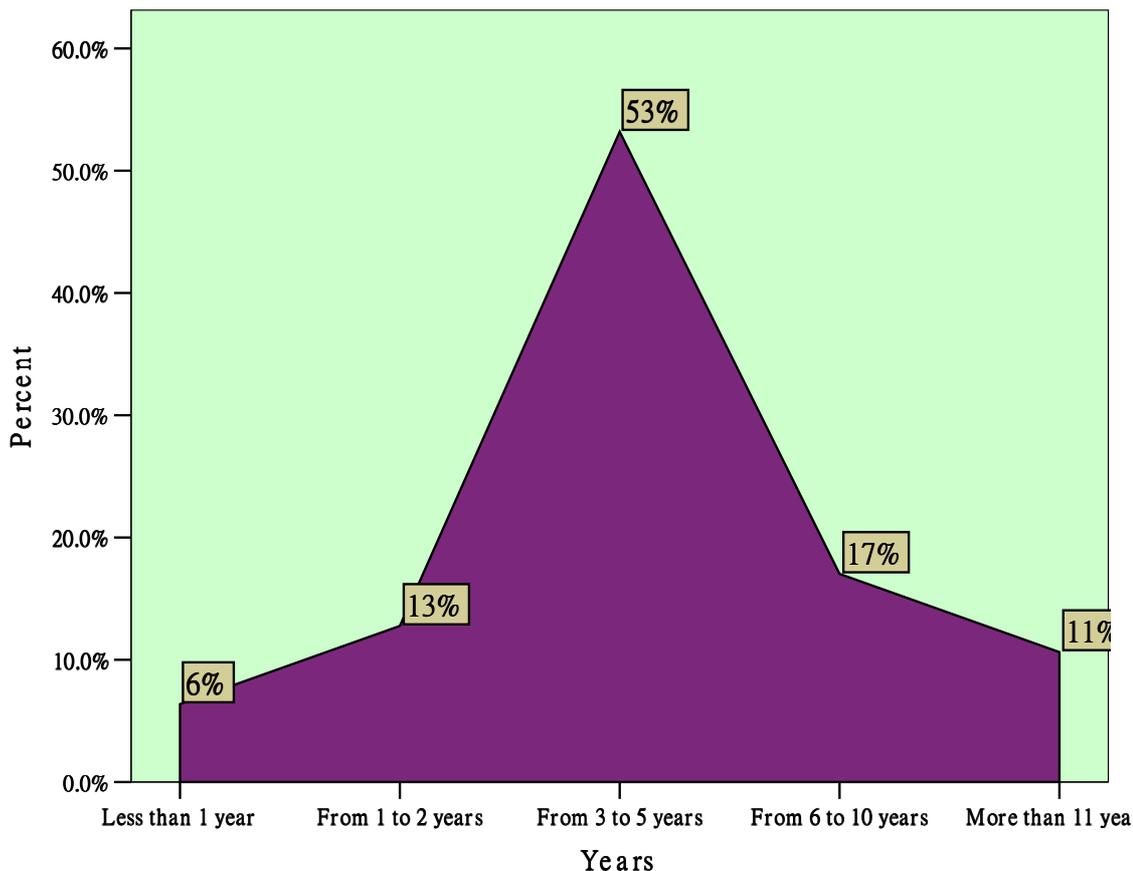
## 4.2.2. Gender of respondents



**Figure 4.3: Gender of respondents**

Of 47 people who responded, as Figure 4.3 shows the majority of respondents in this study were male (35) and 12 were female.

4.2.3. Contribution by age of business in KZN



**Figure 4.4: Contribution by age of business in KZN**

Figure 4.4 shows that most of the respondents (53%) have been in KZN for more than three years but less than five years; 17% of respondents have been in KZN for 6 years but less than 10 years; 13% of respondents have been in KZN for a year but less than 2 years; 11% of respondents have been in KZN for more than 11 years; and finally only 6% of respondents have been in KZN for less than a year.

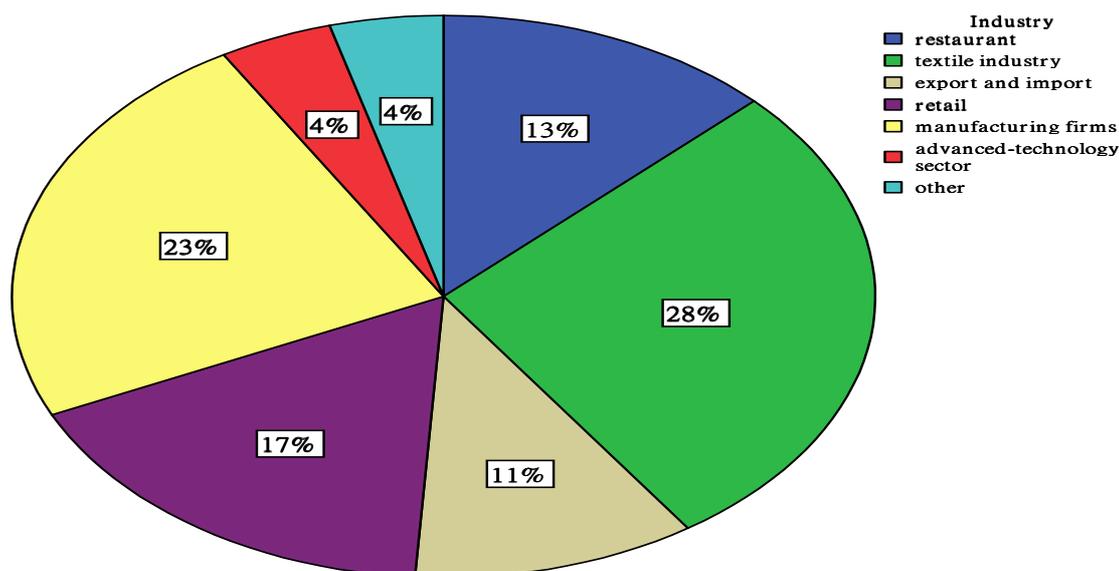
4.2.4. The number of employees

**Table 4.1: The number of employees**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5	3	6	6	6
5-20	29	62	62	68
20-200	11	23	23	91
More than 200	4	9	9	100.0
<b>Total</b>	<b>47</b>	<b>100.0</b>	<b>100.0</b>	

Of the 47 people who responded, most (62%) had five but less than twenty employees; 23% of respondents had twenty but less than two hundreds employees; 9% of respondents had more than two hundreds; and only 6% of respondents had one but less than five employees.

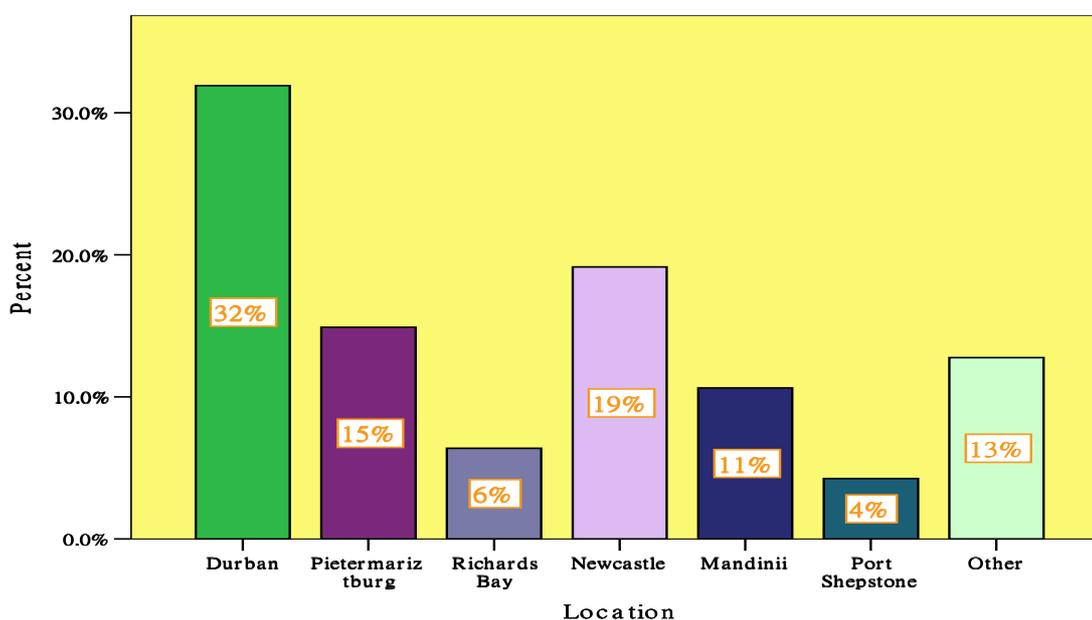
4.2.5. Contribution by industry of Chinese enterprises in KZN



**Figure 4.5: Contribution by industry of Chinese enterprises in KZN**

Of the 47 people who responded, 13% of respondents were from the restaurant industry; 28% from the textile industry; 11% are part of the export and import trade industry; 17% of respondents were from the retail sector; 23% of respondents own manufacturing firms; 4% of respondents were from the advanced-technology sector; and 4% of respondents represent other industries.

#### 4.2.6. Contribution by locations of Chinese enterprises in KZN



**Figure 4.6: Contribution by locations of Chinese enterprises in KZN**

Figure 4.6 shows that 32% of respondents were from Durban, 19% from Newcastle; 15% of respondents were from Pietermaritzburg; 11% were from Mandini Industrial Park; 6% were from Richards Bay; and only 4% of respondents were from Port Shepstone. In addition, 13% of respondents were from other towns in KZN.

## 4.2.7. Business conditions in the past year

**Table 4.2: Business conditions in the past year**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid Not very successful</b>	2	4	4	4
<b>Not successful</b>	5	11	11	15
<b>Neutral</b>	23	49	49	64
<b>Successful</b>	13	28	28	92
<b>Very successful</b>	4	8	8	100.0
<b>Total</b>	47	100.0	100.0	

Table 4.2 shows that 49% of respondents were neither successful nor unsuccessful in the past year; 28% of respondents were successful in the past year and 8% of respondents were very successful; then 11% of respondents were not successful in the past year; and only 4% of respondents were not very successful in the past year.

## 4.2.8. Macro environment in the following year

**Table 4.3: Macro-environment in the following year**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid not very bright</b>	19	40	40	40
<b>not bright</b>	13	28	28	68
<b>neutral</b>	10	21	21	89
<b>bright</b>	4	9	9	98
<b>very bright</b>	1	2	2	100.0
<b>Total</b>	47	100.0	100.0	

Of the 47 people who responded, 40% of respondents thought the macro environment would be not be very bright in KZN in the following year; 28% thought it would be not bright in KZN in the following year; 21% of respondents thought the macro

environment would neither be bright nor not bright in the following year; 9% thought the macro environment would be bright in KZN in the following year; and only 2% of respondents thought the macro environment would be very bright in KZN in the following year.

### 4.3. Reasons for investing in KZN

Section two of the questionnaire aimed to discuss and identify the reasons why so many Chinese enterprises invested in KZN. This section utilized a five-point Likert scale. The findings indicate what attracted Chinese enterprises to KZN in the past decade.

#### 4.3.1. Market size and attractiveness

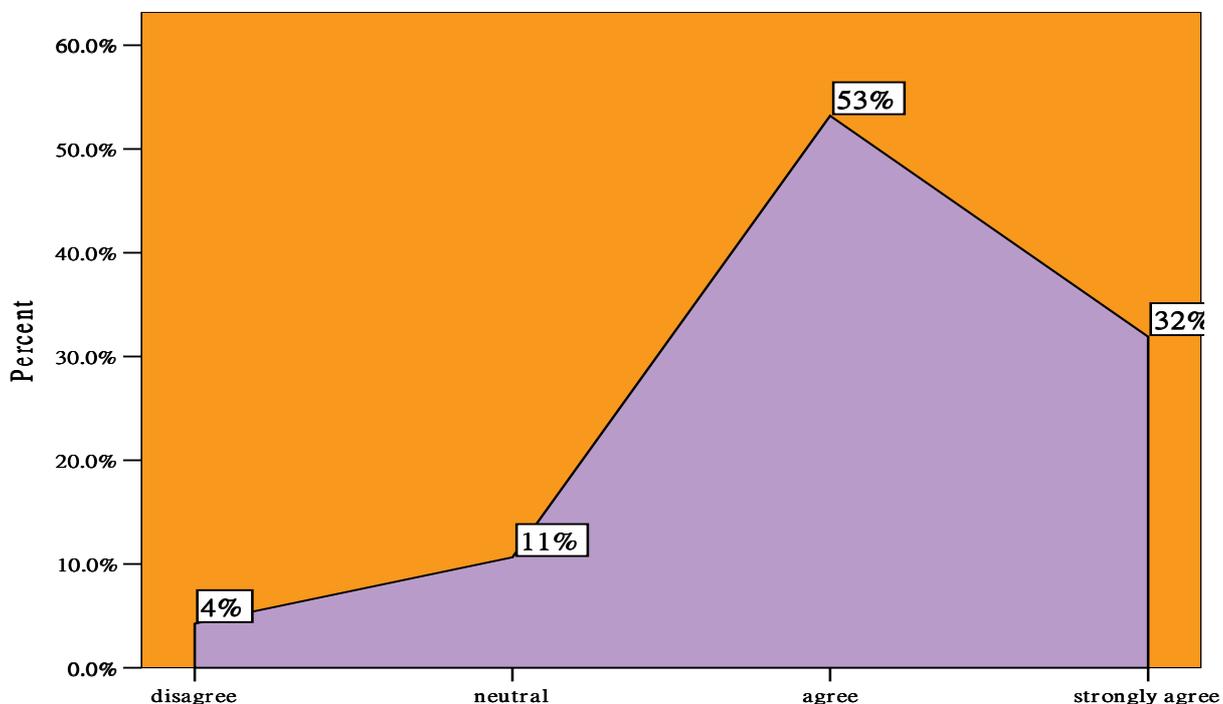
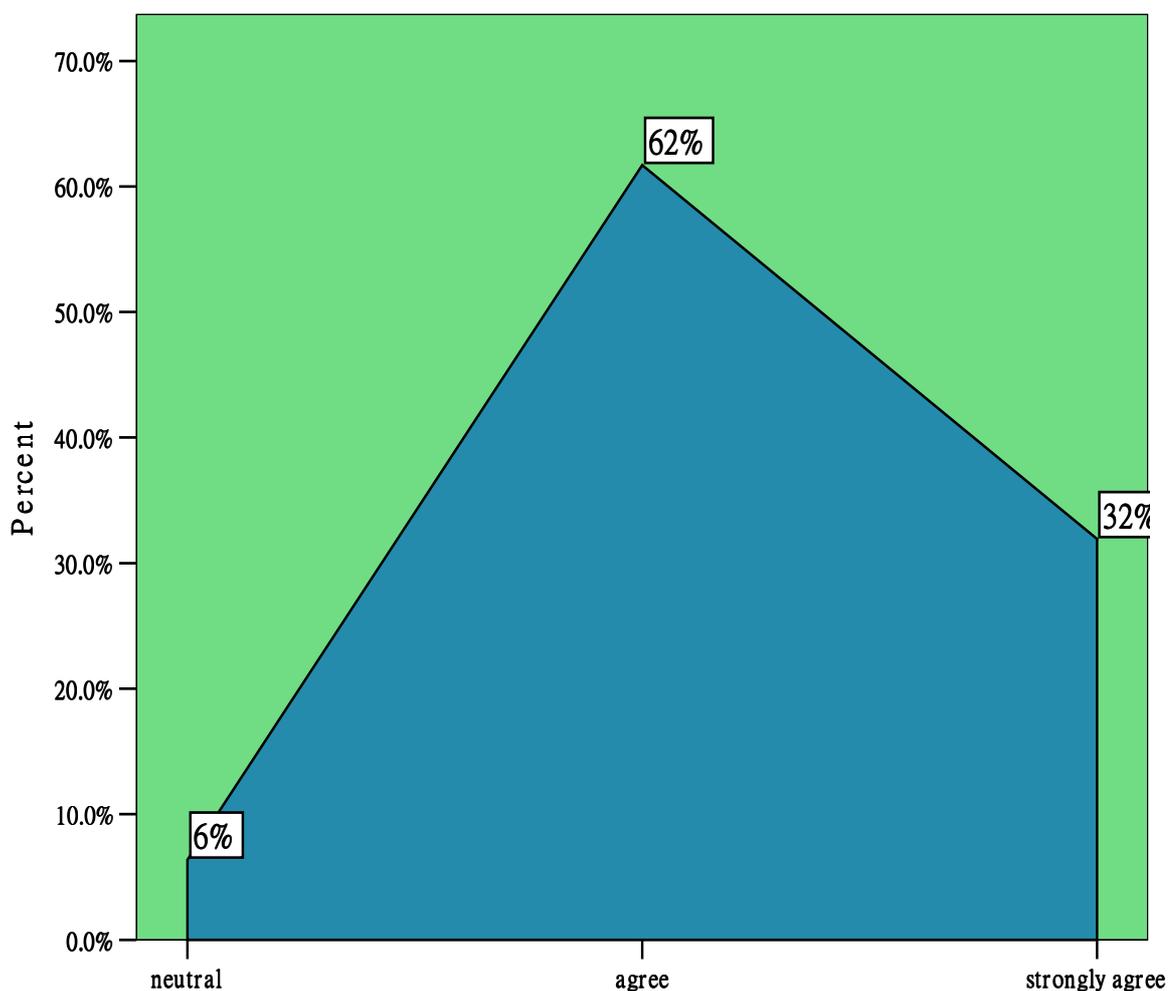


Figure 4.7: Market size and attractiveness in KZN

Figure 4.7 shows that 32% of respondents strongly agreed that market size and attractiveness were a reason for investing in KZN; 53% of respondents agreed; 11% of respondents neither agreed nor disagreed; only 4% of respondents disagreed; and no respondents strongly disagreed. In other words, most of the respondents (85%) thought that market size and attractiveness were a reason for investing in KZN.

#### 4.3.2. Growing demand

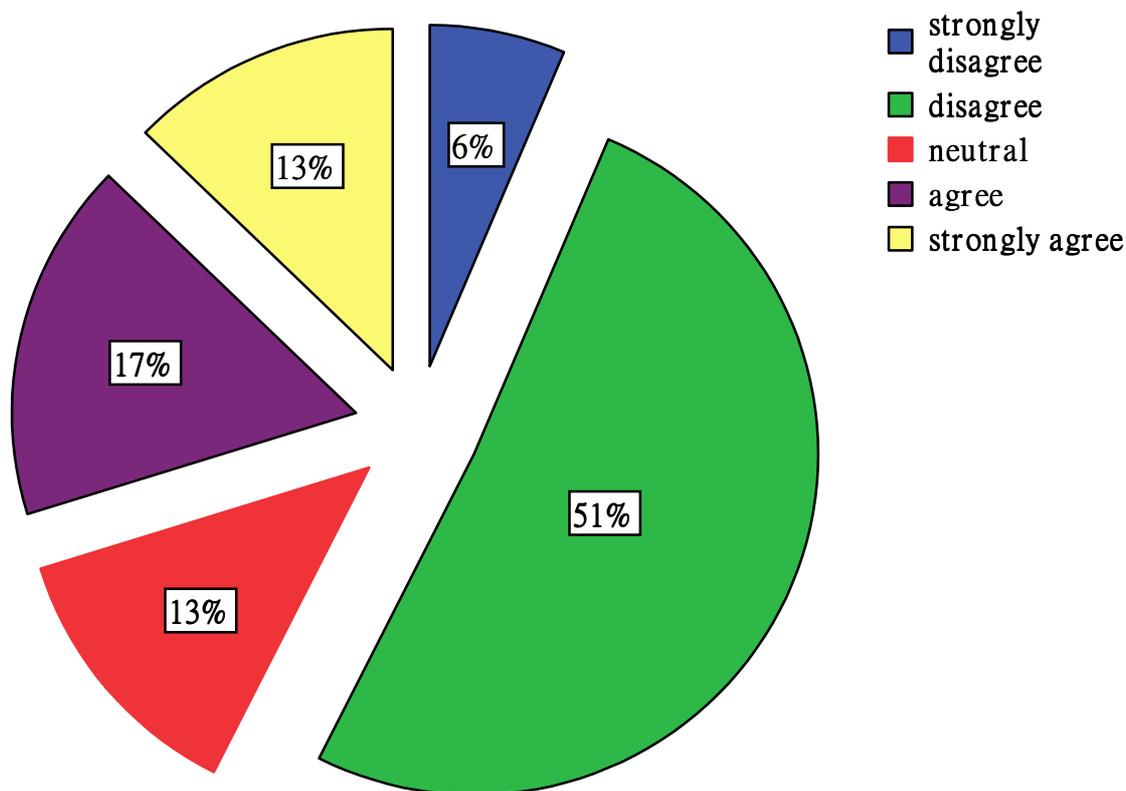


**Figure 4.8: Growing demand in KZN**

As Figure 4.8 shows that 32% of respondents strongly agreed that growing demand was a reason for investing in KZN; 62% agreed; 6% of respondents neither agreed nor disagreed; and no respondent disagreed or strongly disagreed. Ninety-four percent of

respondents (94%) thought that growing demand was a reason for investing in KZN.

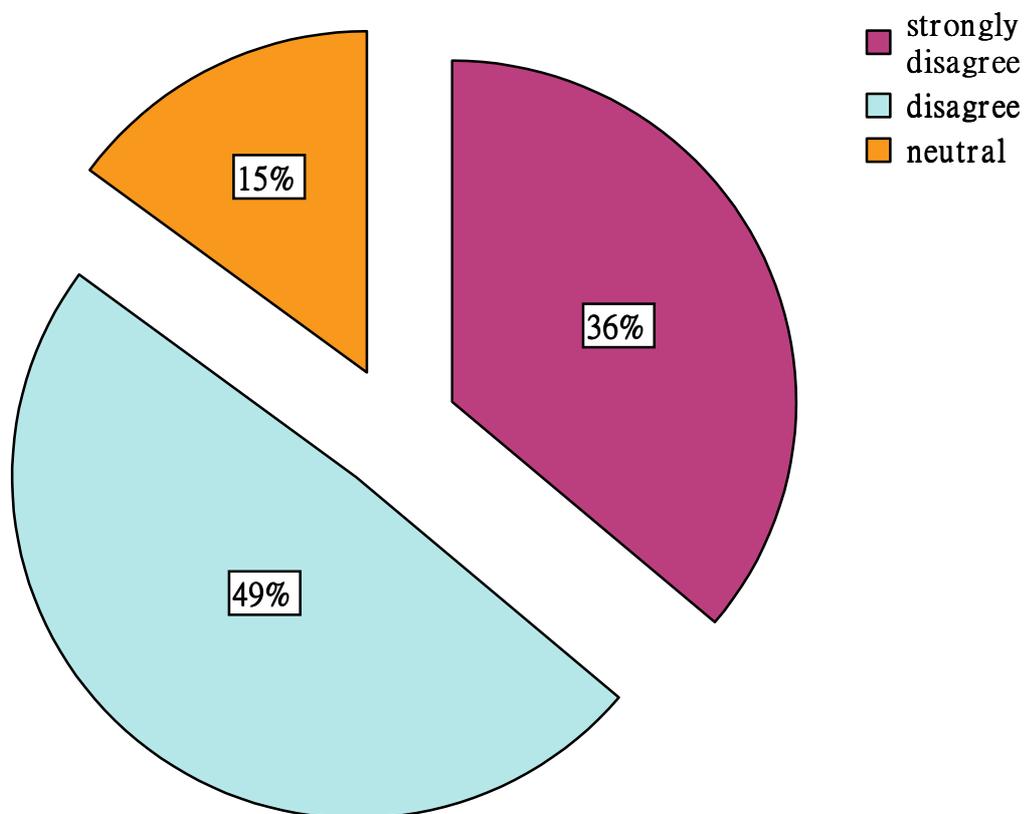
4.3.3. Labour cost



**Figure 4.9: Labour costs in KZN**

Figure 4.9 shows that 13% of respondents strongly agreed that labour costs was a reason for investing in KZN; 17% agreed; 13% of respondents neither agreed nor disagreed; 51% disagreed; and 6% of respondents strongly disagreed. Thus, 57% of respondents thought that labour costs were a reason for investing in KZN.

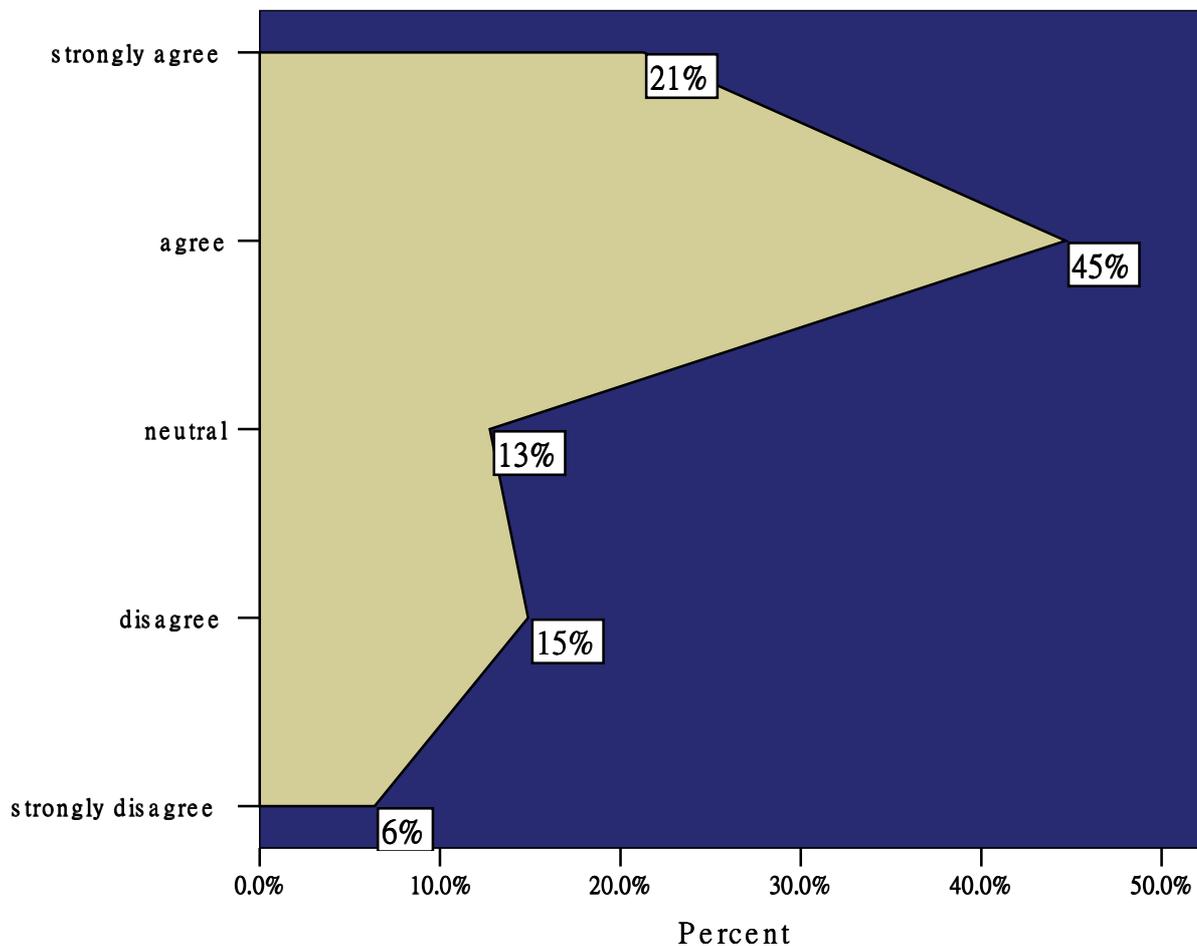
## 4.3.4. Taxation



**Figure 4.10: Taxation in KZN**

As Figure 4.10 shows, 36% of respondents strongly disagreed that taxation was a reason for investing in KZN; 49% disagreed; 15% of respondents neither agreed nor disagreed. Not a single respondent thought that taxation was a reason for investing in KZN.

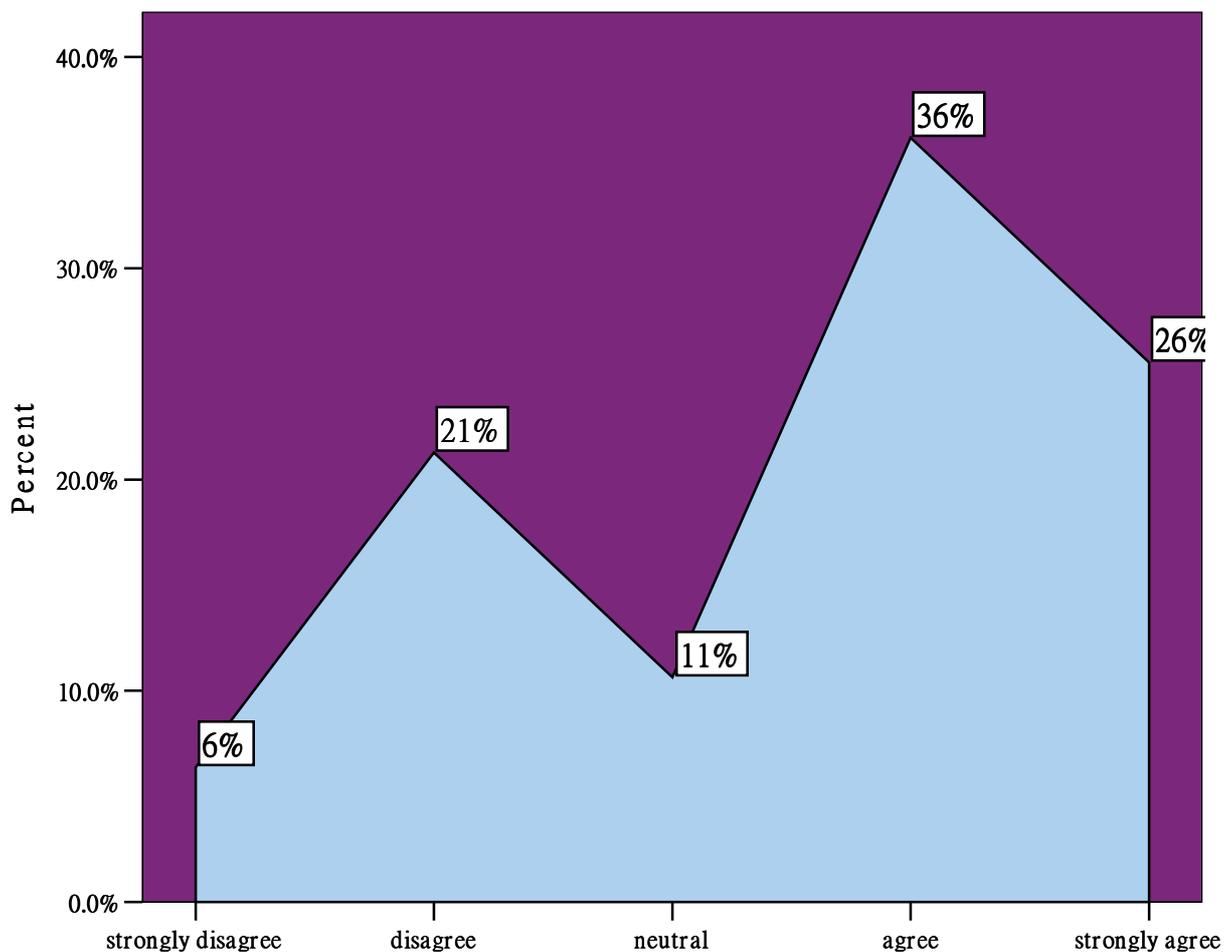
4.3.5. The openness of the economy



**Figure 4.11: The openness of the economy in KZN**

Figure 4.11 shows that 21% of respondents strongly agreed that the openness of economy was a reason for investing in KZN; 45% agreed; 13% of respondents neither agreed nor disagreed; 15% of respondents disagreed; and 6% of respondents strongly disagreed. Thus, most respondents (67%) thought that the openness of economy was a reason for investing in KZN.

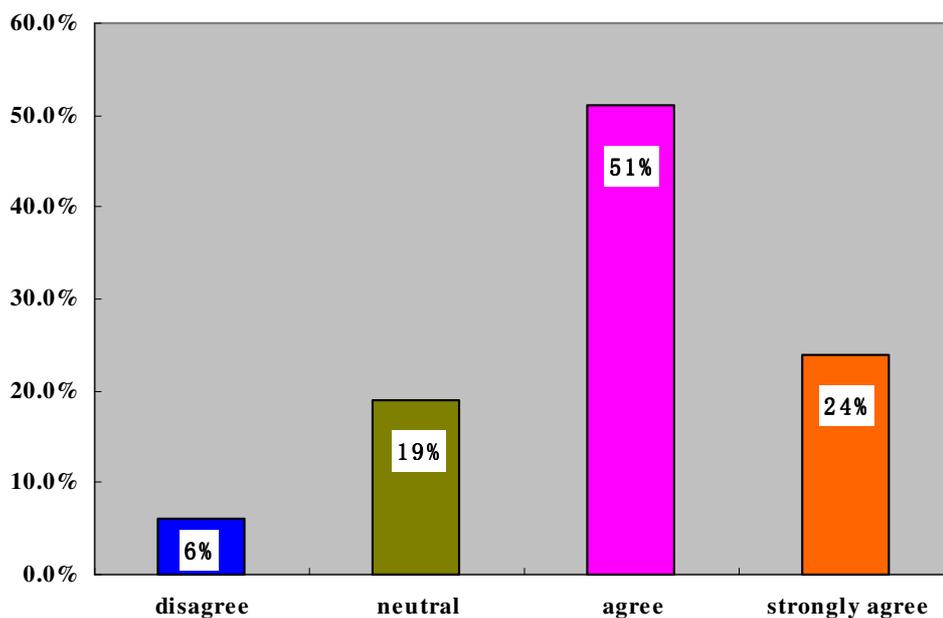
4.3.6. Local political environment



**Figure 4.12: Local political environment in KZN**

Figure 4.12 shows that 26% of respondents strongly agreed that the local political environment was a reason for investing in KZN; 36% agreed; 11% of respondents neither agreed nor disagreed; 21% disagreed; and 6% of respondents strongly disagreed. Thus, most of the respondents (62%) thought that the local political environment was a reason for investing in KZN.

#### 4.3.7. The level of infrastructure



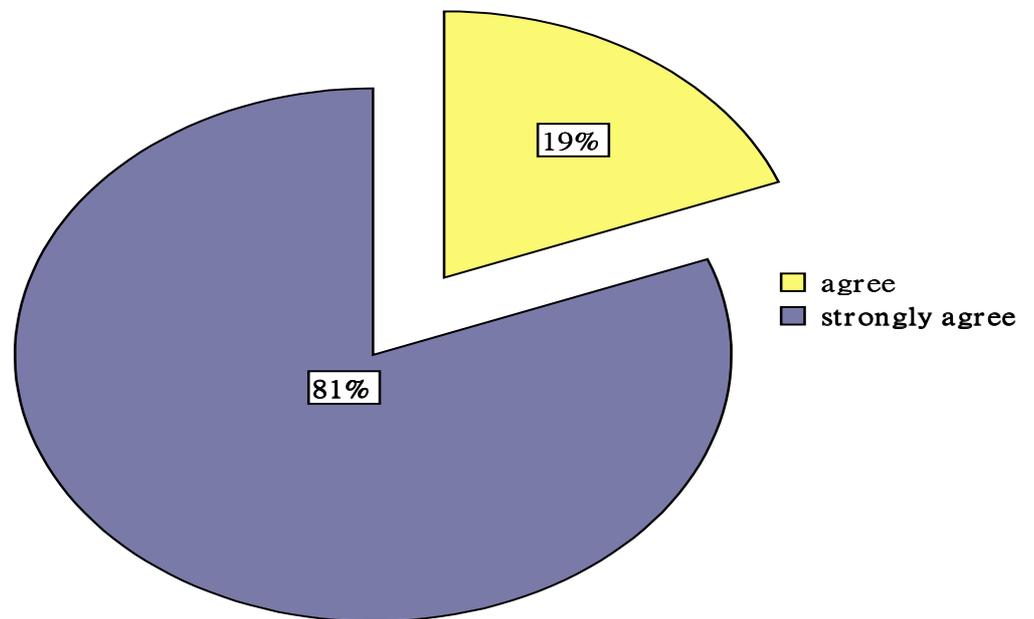
**Figure 4.13: The level of infrastructure in KZN**

Figure 4.13 shows that 24% of respondents strongly agreed that the level of infrastructure was a reason for investing in KZN; 51% agreed; 19% of respondents neither agreed nor disagreed; only 6% of respondents disagreed; and no respondents strongly disagreed. In other words, most of the respondents (75%) thought that the level of infrastructure was a reason for investing in KZN.

#### 4.4. Macro-environmental factors in KZN

In Section three of the questionnaire, the researcher identified negative macro-environmental factors for Chinese enterprises development in KZN. This section of the questionnaire also utilized a five-point Likert scale. The findings of this section are presented as follows:

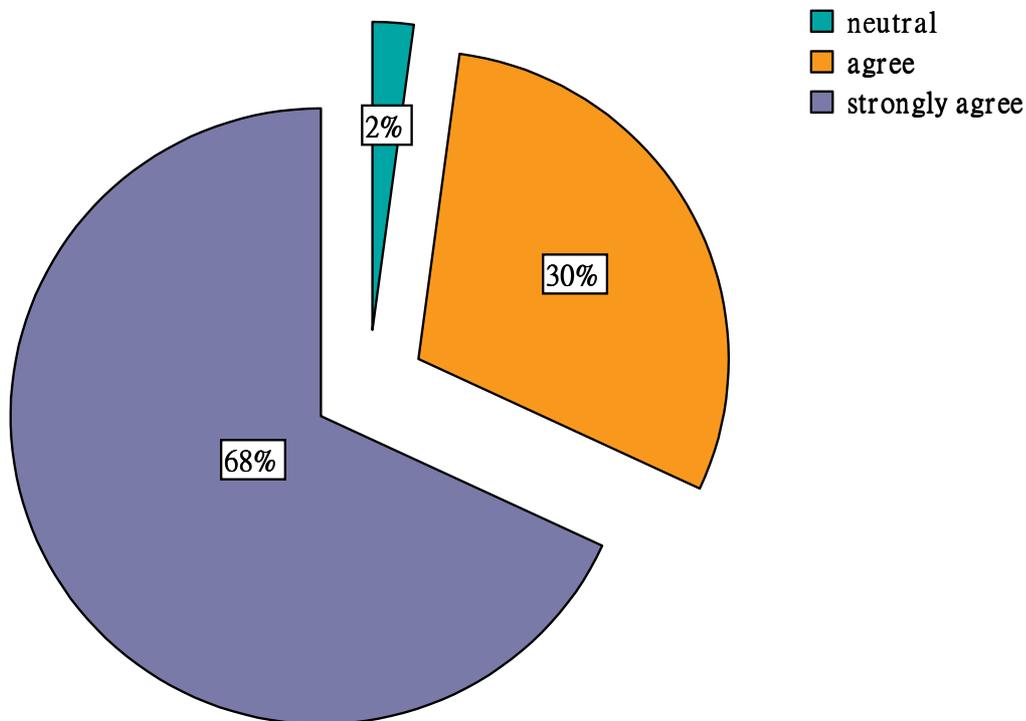
## 4.4.1. The weak exchange rate



**Figure 4.14: Effect of the weak exchange rate on the macro-environment**

Figure 4.14 show that all of the respondents agreed that the weak exchange rate negatively influenced the development of Chinese enterprises in KZN.

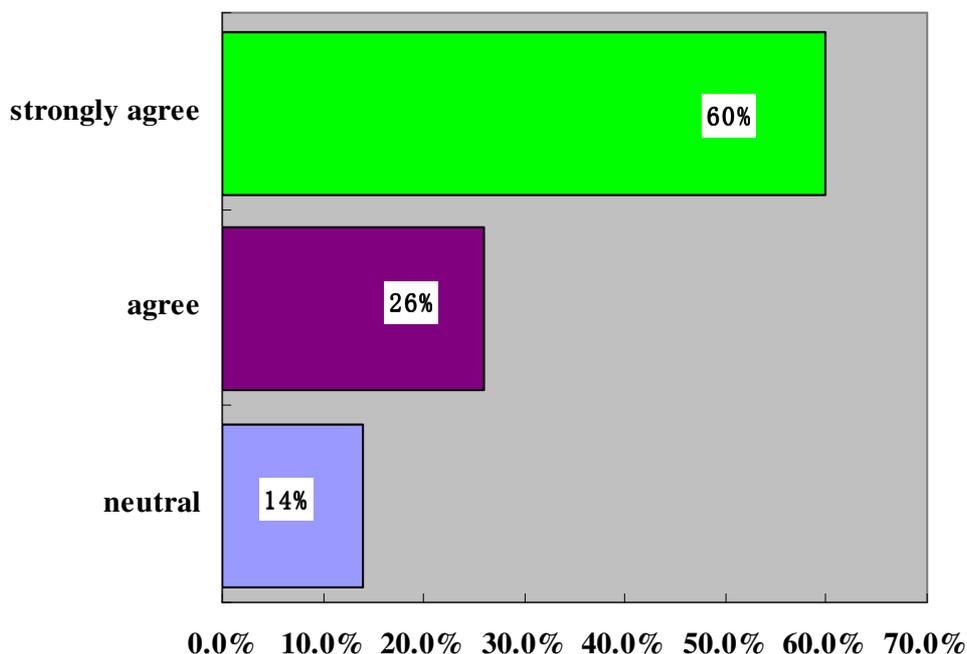
4.4.2. The rising crime rate



**Figure 4.15: Effect of rising crime rate on the macro-environment**

Figure 4.15, 68% of respondents strongly agreed that the rising crime rate negatively influenced the development of Chinese enterprises in KZN; 30% agreed; and only 2% of respondents neither agreed nor disagreed. In other words, the finding shows almost all of the respondents (98%) agreed that the rising crime rate negatively influenced the development of Chinese enterprises in KZN.

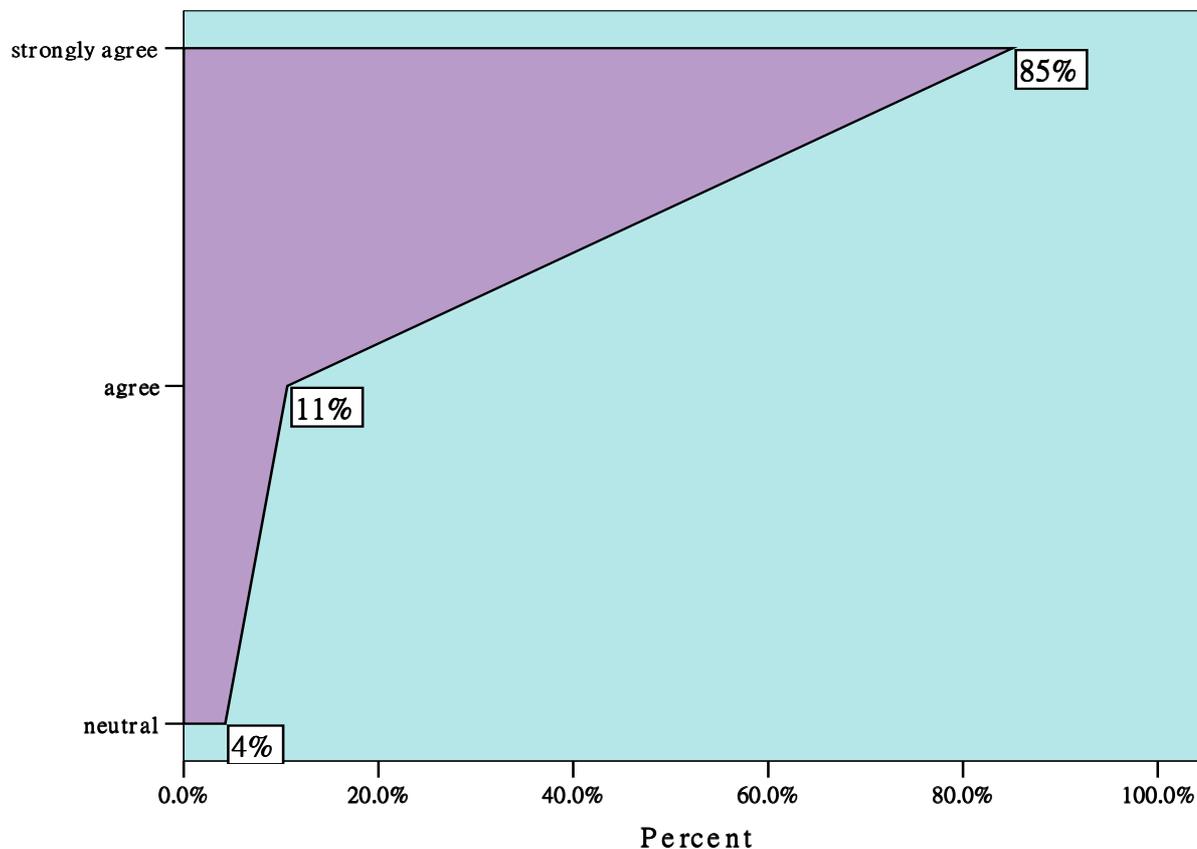
4.4.3. Higher inflation rate



**Figure 4.16: Effect of the higher inflation rate on the macro-environment**

Figure 4.16, 60% of respondents strongly agreed that higher inflation rate negatively influenced the development of Chinese enterprises in KZN; 26% agreed; and 14% of respondents neither agreed nor disagreed. In other words, the finding shows most of the respondents (86%) agreed that the higher inflation rate negatively influenced the development of Chinese enterprises in KZN.

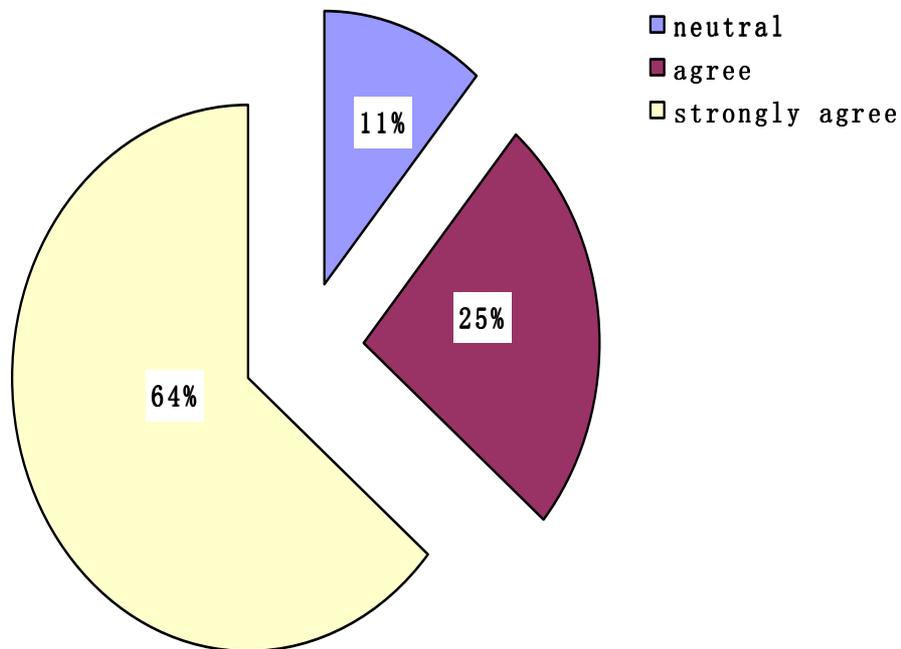
4.4.4. Union activity



**Figure 4.17: Effect of union activity on the macro-environment**

Figure 4.17, 85% of respondents strongly agreed that union activity negatively influenced the development of Chinese enterprises in KZN; 11% of respondents agreed; and only 14% of respondents neither agreed nor disagreed. In other words, the finding shows almost all of the respondents (96%) agreed that the union activity negatively influenced the development of Chinese enterprises in KZN.

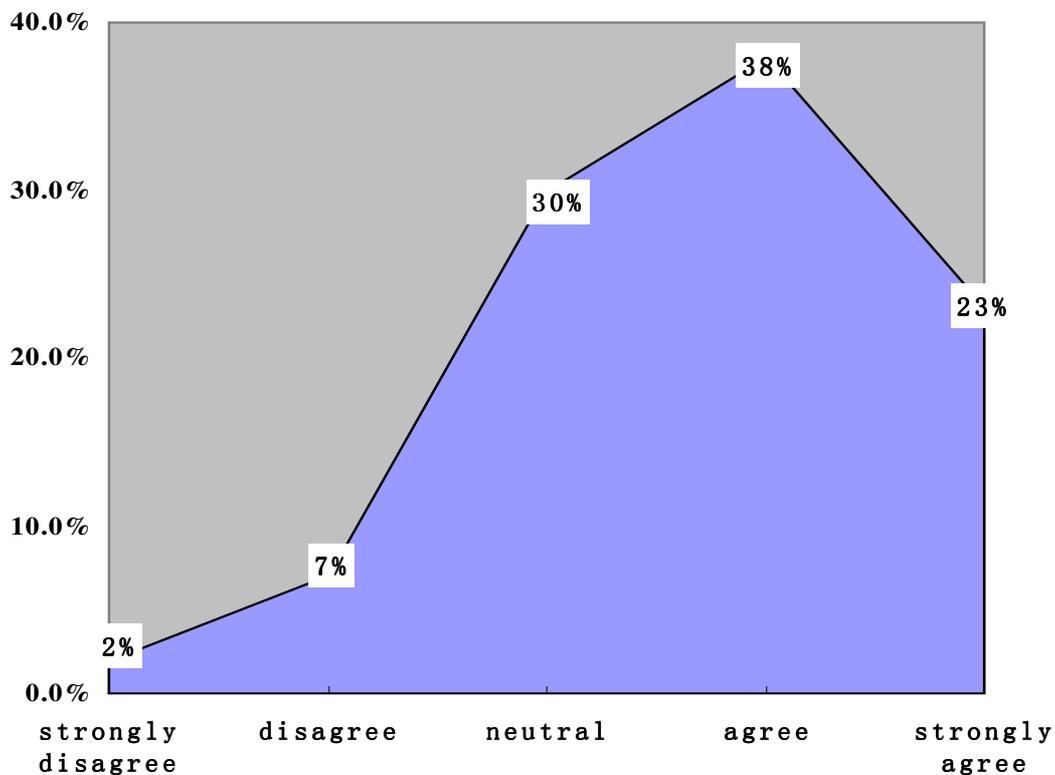
## 4.4.5. Taxation



**Figure 4.18: Effect of taxation on the macro-environment**

Figure 4.18, 64% of respondents strongly agreed that taxation negatively influenced the development of Chinese enterprises in KZN; 25% agreed; and 11% of respondents neither agreed nor disagreed. In other words, the finding shows almost ninety per cent of respondents (89%) agreed that taxation negatively influenced the development of Chinese enterprises in KZN.

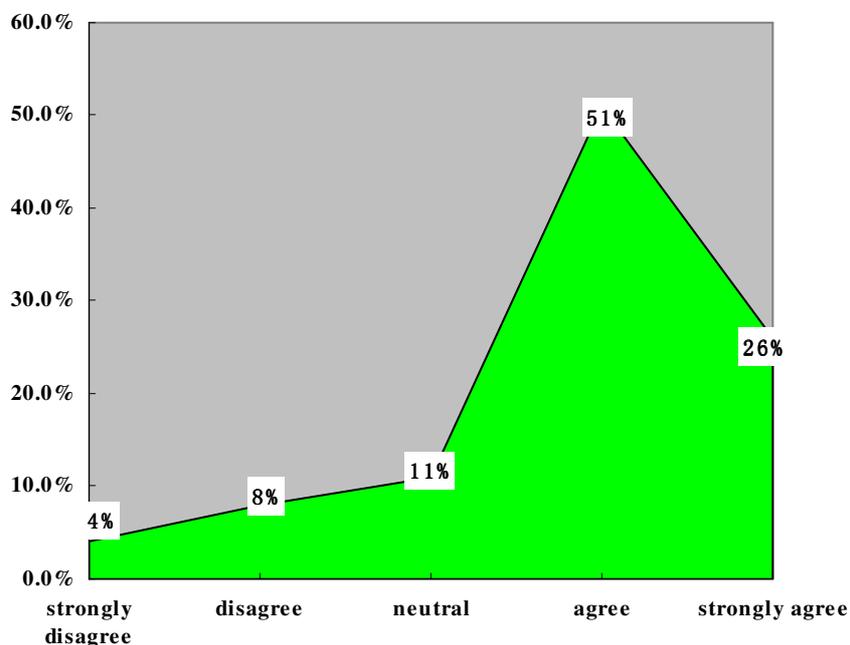
4.4.6. The level of infrastructure



**Figure 4.19: Effect of the level of infrastructure on the macro-environment**

Figure 4.19, 23% of respondents strongly agreed that the level of infrastructure negatively influenced the development of Chinese enterprises in KZN; 38% agreed; 30% of respondents neither agreed nor disagreed; 7% disagreed; and only 2% of respondents strongly disagreed. Therefore, more than sixty per cent of respondents (62%) agreed that the level of infrastructure negatively influenced the development of Chinese enterprises in KZN.

4.4.7. Competitive environment



**Figure 4.20: Effect of competitive environment on the macro-environment**

Figure 4.20, 26% of respondents strongly agreed that the competitive environment negatively influenced the development of Chinese enterprises in KZN; 51% agreed; 11% of respondents neither agreed nor disagreed; 8% disagreed; and only 4% of respondents strongly disagreed. Therefore, almost eighty per cent of respondents (77%) agreed that the competitive environment negatively influenced the development of Chinese enterprises in KZN.

#### 4.5. Aspects influenced by macro-environmental factors

The purpose of this section is to examine the aspects of each macro-environmental factor that influences the management and development of Chinese businesses in KZN. The findings will be shown in the following tables.

##### 4.5.1. Increase in the cost of materials imported from China

Section four: Statement 1: *The weak exchange rate between the Rand and Dollar could increase the cost of materials imported from China.*

**Table 4.4: The weak exchange rate influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	2	2	2
disagree	3	6	6	8
Neutral	6	13	13	21
Agree	16	34	34	55
strongly agree	21	45	45	100.0
<b>Total</b>	<b>47</b>	<b>100.0</b>	<b>100.0</b>	

Table 4.4 shows that 45% of respondents strongly agreed with statement 1; 34% of respondents agreed; 13% of respondents neither agreed nor disagreed with statement 1; 6% disagreed; and finally 2% of respondents strongly disagreed with statement 1. Almost eighty per cent of respondents (79%) agreed with statement 1.

## 4.5.2. Down turn in business development in KZN

Section four: Statement 2: *The rising crime rate in KwaZulu-Natal could slow down business development in KZN.*

**Table 4.5: The rising crime rate influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> strongly disagree	3	6	6	6
disagree	5	11	11	17
neutral	5	11	11	28
Agree	11	23	23	51
strongly agree	23	49	49	100.0
<b>Total</b>	<b>47</b>	<b>100.0</b>	<b>100.0</b>	

Table 4.5 shows that 49% of respondents strongly agreed with statement 2, 23% agreed; 11% of respondents neither agreed nor disagreed with statement 2; 11% disagreed; and finally 6% of respondents strongly disagreed with statement 2. 71% of respondents agreed with statement 2.

## 4.5.3. The effect of the level of infrastructure in KZN

Section four: Statement 3: *Power shortages in KwaZulu-Natal could negatively affect the level of infrastructure.*

**Table 4.6: Power shortage influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid strongly disagree</b>	<b>4</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>disagree</b>	<b>7</b>	<b>15</b>	<b>15</b>	<b>24</b>
<b>neutral</b>	<b>12</b>	<b>25</b>	<b>25</b>	<b>49</b>
<b>Agree</b>	<b>15</b>	<b>32</b>	<b>32</b>	<b>81</b>
<b>strongly agree</b>	<b>9</b>	<b>19</b>	<b>19</b>	<b>100.0</b>
<b>Total</b>	<b>47</b>	<b>100.0</b>	<b>100.0</b>	

Table 4.6 shows that 19% of respondents strongly agreed with statement 3, 32% agreed; 25% of respondents neither agreed nor disagreed with statement 3; 5% disagreed; and finally 9% of respondents strongly disagreed with statement 3. 51% of respondents agreed with statement 3.

## 4.5.4. Reduction in the real rate of return

Section four: Statement 4: *Higher inflation rates in South Africa could reduce the real rate of return in KZN.*

**Table 4.7: Higher inflation influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid disagree</b>	3	6	6	6
<b>neutral</b>	3	6	6	12
<b>Agree</b>	16	34	34	46
<b>strongly agree</b>	25	54	54	100.0
<b>Total</b>	47	100.0	100.0	

Table 4.7 shows that 54% of respondents strongly agreed with statement 4, 34% agreed; 6% of respondents neither agreed nor disagreed with statement 4; and finally 6% of respondents disagreed with statement 4. Almost ninety per cent of respondents (88%) agreed with statement 4.

#### 4.5.5. Hindrances to entrepreneurial activity in KZN

Section four: Statement 5: *Union activity in KwaZulu-Natal could hinder entrepreneurial activity.*

**Table 4.8: Union activity influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid strongly disagree</b>	2	4	4	4
<b>disagree</b>	6	13	13	17
<b>neutral</b>	4	9	9	26
<b>Agree</b>	10	21	21	47
<b>strongly agree</b>	25	53	53	100.0
<b>Total</b>	47	100.0	100.0	

Table 4.8 shows that 53% of respondents strongly agreed with statement 5, 21% agreed; 9% of respondents neither agreed nor disagreed with statement 5; 13%

disagreed; and only 4% of respondents disagreed with statement 5. Almost 74% of respondents agreed with statement 5.

#### 4.5.6. Reductions to business profits in KZN

Section four: Statement 6: *Taxation could reduce the business profits.*

**Table 4.9: Taxation influence**

	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid strongly disagree</b>	4	9	9	9
<b>disagree</b>	7	15	15	24
<b>neutral</b>	9	19	19	43
<b>Agree</b>	16	34	34	77
<b>strongly agree</b>	11	23	23	100.0
<b>Total</b>	47	100.0	100.0	

Table 4.9 shows that 23% of respondents strongly agreed with statement 6, 34% agreed; 19% of respondents neither agreed nor disagreed with statement 6; 15% disagreed; and finally 9% of respondents strongly disagreed with statement 6. 57% of respondents agreed with statement 6.

#### 4.5.7. Return on investment in KZN

Section four: Statement 7: *The competitive environment in KwaZulu-Natal could affect return rates on investment.*

**Table 4.10: The competitive environment influence**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
<b>Valid strongly disagree</b>	<b>3</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>disagree</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>10</b>
<b>neutral</b>	<b>7</b>	<b>15</b>	<b>15</b>	<b>25</b>
<b>Agree</b>	<b>14</b>	<b>30</b>	<b>30</b>	<b>55</b>
<b>strongly agree</b>	<b>21</b>	<b>45</b>	<b>45</b>	<b>100.0</b>
<b>Total</b>	<b>47</b>	<b>100.0</b>	<b>100.0</b>	

Table 4.10 shows that 45% of respondents strongly agreed with statement 7, 30% agreed, 15% of respondents neither agreed nor disagreed with statement 7, 4% disagreed, and finally 6% of respondents strongly disagreed with statement 7. 75% of respondents agreed with statement 7.

#### **4.6. Conclusion**

This chapter analyzed the raw data obtained from administration of the questionnaire. The results were calculated using SPSS, which the researcher observed and interpreted. The implications of these results will be discussed in more detail in the next chapter.

## CHAPTER FIVE

### RECOMMENDATIONS

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#### 5.1. Introduction

The results of the data analysis were outlined in the previous chapter. Based on the findings, the researcher focuses on recommendations in this chapter.

#### 5.2. Recommendations

The results of the data analysis in chapter four have revealed that: the macro-environment in KZN has been a bottleneck for the development of Chinese enterprises. Recommendations are provided below that suggest areas for possible improvement. The recommendations are based on the results of the survey and represent an attempt to propose effective methods to negate harmful macro-environment influences.

##### 5.2.1. For Chinese enterprises

Today's companies are evolving in turbulent and equivocal environments. Although an entrepreneur can do almost nothing to influence the macro-environment, the entrepreneur can reduce the loss of earnings by identifying what macro-environmental factors could constrain the development of their enterprise in KZN. Chinese enterprises in KZN can use environmental scanning to monitor important events in

their surrounding environment. Environmental scanning is a way to answer the question, "What's happening in my environment that will affect my future?"

Choo (2001) notes that environmental scanning is the acquisition and use of information from events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action. In other words, organizations scan the environment in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future. According to Dess, Gregory, Lumpkin and Taylor (2005), successful environmental scanning alerts the organization to critical trends and events before the changes have developed a discernible pattern and before competitors recognize them. Environmental scanning can help Chinese enterprises minimize possible risk in the future and gain competitive advantages in the current market. Slaughter (2003) points out that environmental scanning is the communication of external information about facts that could influence an organization in its strategic decision-making process, that is, it is a method of analyzing relevant gathered information and using it to determine strategic and premeditated action in the business environment. Environmental scanning focuses on the detection of emerging issues, circumstances, and potential issues that could determine an organization's future. It is also used to evaluate an organization's strengths and weaknesses in response to external threats and opportunities. In essence, environmental scanning is a process to identify, collect, and transmit information about external factors that can be converted into plans and decisions. Environmental scanning assesses the internal strengths and weaknesses of an organization in relation to the external opportunities and threats it faces.

By using environmental scanning, Chinese enterprises in KZN could recognize external factors that could affect their position in the market. This could help them in KZN to formulate successful responses to protect or improve their position in the

future. In addition, environmental scanning can help Chinese enterprises be wary of any surprises, spot pressure and opportunities, increase competitive advantage, and also improve long-term and immediate planning.

### 5.2.2. For the province Government

Although the macro-environment still poses a big challenge for the provincial government, the good news is that the local government is starting to recognize the value of improving the macro environment. This is well-articulated in the Report of the Commission for Africa (2005), where it is noted that African governments need to play an active role in creating business environments to unlock local opportunities. The past two years have been marked by an increasing appetite for improvement in the investment climate on the part of governments across African continent.

According to findings in Chapter Four, it is evident that taxation is not a reason for Chinese enterprise investment to be attracted to KZN. The government also needs to improve the level of infrastructure, control labour costs, enhance the level of the openness of the economy, and create a stable political environment. The market size and growing demand are attractive factors; the government still needs to be aware of these issues in the coming years.

The researcher observed in Chapter Four that all seven macro-environmental factors that were tested in the study negatively influenced the development of Chinese enterprises in KZN. Provincial government must pay more attention to creating a better macro environment for investors. Many economists believe that improving the macro-environment for domestic and foreign enterprises will help drive demand for investment and boost investor confidence in the business environments. KwaZulu-Natal's economy will thrive through the implementation of strategies aimed

at strengthening the macro-environment for domestic and foreign enterprises.

Based on the above-analysis, recommendations are listed for provincial governments below:

- The government should make KZN a fantastic place to do business, that is, they must improve KwaZulu-Natal's (KZN) attractiveness for investors.
- They should deliver tangible and self-sustaining reform and focus on the fundamentals critical of a healthy investment climate. For example, they must put more resources into reducing the crime rate and future improving the level of infrastructure.
- They should pay more attention to create an excellent macro-environment for entrepreneurs, not only for Chinese enterprises but also for domestic entrepreneurs.
- They should formulate more friendly policies and laws to create an excellent external business environment for foreign investment wherever they come from.

### **5.3. Areas for Further Research**

This study focused on macro-environmental factors influencing the development of Chinese enterprises in KZN; therefore it did not concentrate on the development of Chinese enterprises in South Africa as a whole or the Southern African Development Community (SADC).

Suggested area for further research is as follows:

- The determination of succession and failure of Chinese business in the past decade in KZN.

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<http://tutor2u.net>

<http://www.global-production.com>

## APPENDIX A: QUESTIONNAIRE

### **Macro-environmental factors influencing Chinese enterprises development in KwaZulu-Natal**

Prepared by: F CHEN (207502219)

The questionnaire has been prepared for a dissertation required towards the completion of the Master of commerce in management in the University of KwaZulu-Natal. The purpose of the questionnaire is to gather information with regards to macro-environmental factors influencing Chinese enterprises development in KwaZulu-Natal.

Questionnaire Number (to be filled in by researcher)

#### **Survey Guidelines**

- ✧ The participant's responses are kept confidential
- ✧ The survey analysis and results will be provided to participants on demand
- ✧ The participants are welcome to discuss any issues related to the questionnaire with the author/researcher

#### **Section one: personal details**

1. Please indicate your age (mark with "x")?

**Under 30**

**31-40**

**41-50**

**Over50**

2. Please indicate your gender (mark with "x")?

**Female**

**Male**

3. Please indicate approximately how old is the business in KwaZulu-Natal (mark with “x”)?

Less than 1 year	
From 1 to 2 years	
From 3 to 5 years	
From 6 to 10 years	
More than 10 years	

4. Please indicate number of employees in your organization (mark with “x”)?

1-5	
5-20	
20-200	
More than 200	

5. Please indicate the sector of your business (mark with “x”)?

Restaurant	
Textile industry	
Export and import	
Retail	
Manufacturing firms	
Advanced-technology sector	
other	

6. Please indicate where your factory or workshop is situated in KwaZulu-Natal (mark with “x”)?

Durban\_\_\_\_\_ Pietermaritzburg\_\_\_\_\_

Richards Bay\_\_\_\_\_ Newcastle\_\_\_\_\_

Mandini\_\_\_\_\_ Port Shepstone\_\_\_\_\_

Other\_\_\_\_\_

7. How would you describe the condition of your business in the last year in KwaZulu-Natal (mark with “x”)?

<input type="checkbox"/>				
Not very Successful	Not Successful	Neutral	Successful	Very Successful

8. In your opinion, what is the future of macro environment for Chinese enterprises development in KwaZulu-Natal like (mark with “x”)?

<input type="checkbox"/>				
Not very Bright	Not Bright	Neutral	Bright	Very Bright

**Section two: Reasons for investing in KwaZulu-Natal**

The purpose of this part is to discuss what were the major reasons for investing in KwaZulu-Natal (KZN) in the past decade. This part consists of seven questions and you are asked to read each question carefully and then mark your responses in the appropriate box.

In your opinion, was...a reason for investing in KwaZulu-Natal (mark with “x”)?

Reasons	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
9. Market size and attractiveness					
10. Growing demand					
11. Labor cost					
12. Taxation					
13. The openness of economy					
14. Local political environment					
15. The level of infrastructure					

**Section three: macro-environmental factors**

The purpose of this part is to identify negative macro-environmental factors for Chinese enterprises development in KwaZulu-Natal (KZN) at the moment. This part consists of seven questions and you are asked to read each question carefully and then mark your responses in the appropriate box.

In your opinion, does...negatively influence the development of Chinese enterprises in KwaZulu-Natal (mark with “x”)?

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
16. The weak exchange rate					
17. Raising crime rate					
18. Higher inflation rate					
19. Union activity					
20. Taxation					
21. The level of infrastructure					
22. Competitive environment					

**Section Four: Aspects influencing by macro-environmental factors**

The purpose of this part is to examine the aspects of each macro-environmental factors influencing in the management and development of the business in KwaZulu-Natal (KZN). This part consists of seven questions and you are asked to read each question carefully and then mark your responses in the appropriate box.

23. In your opinion, the weak exchange rate between Rand and Dollar could increase the cost of materials imported from China (mark with “x”).

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

24. In your opinion, rising crime rate in KwaZulu-Natal could slow down business development in KwaZulu-Natal (mark with “x”).

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

25. In your opinion, power shortage in KwaZulu-Natal could negatively affect the level of infrastructure (mark with “x”).

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

26. In your opinion, higher inflation rate in South Africa could reduce the real rate of return in KwaZulu-Natal (mark with “x”).

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

27. In your opinion, union activity in KwaZulu-Natal could hinder entrepreneurial activity (mark with “x”).

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

28. In your opinion, taxation could reduce the business profits (mark with “x”)?

Strongly  
Disagree

Disagree

Neutral

Agree

Strongly  
agree

**29. In your opinion, competitive environment in KwaZulu-Natal could affect return rates on investment (mark with “x”).**

**Strongly  
Disagree**

**Disagree**

**Neutral**

**Agree**

**Strongly  
agree**

**Thank you for your help and your time.**

**Date: \_\_\_\_\_**

