

Determinants of Foreign Direct Investment in tourism: The case of Malawi

**Noah Edson Nansongole B.com, MBA
22410686**

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Promoter: Prof Dr M. Saayman
Co-promoter: Prof Dr. W Krugell

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by**

**N.E. NANSONGOLE
MBA. B.Com**

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Supervisor: Prof. Dr M. Saayman
Assistant Supervisor: Prof. Dr W. Krugell

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ABSTRACT

Foreign Direct Investment, in spite of several challenges, is hailed as one of the vehicles for economic development, especially in developing countries. In the tourism industry, FDI brings much needed capital, technology, marketing skills and operations systems that would otherwise not be available in the host country. Both developed and developing countries are always competing to attract FDI to their countries.

The primary goal of this study was therefore to investigate factors that investors consider when undertaking FDI into the tourist accommodation sector in Malawi. Malawi remains one of the few countries in Africa which has not attracted meaningful FDI into its tourist accommodation sector. The objective of the study is fourfold; to analyse foreign direct investment, to identify country and industry level factors that influence tourism FDI, to analyse Malawi's general investment climate and to make recommendations to government and industry on attracting FDI.

The study conducted a literature study on general FDI and tourism-specific FDI and the Malawi investment climate. An empirical study was carried out, through a quantitative research method. The sample was derived using a probability sampling method and was extracted from a national tourist accommodation database.

The research found that there is a strong relationship between the source country of tourist accommodation FDI in Malawi and tourist source countries. It also found that economic factors, perception and infrastructure, government policy, competitiveness and nature are important considerations when investing in the Malawi tourist accommodation sector, in that order. Industry level factors that respondents found important are protection of investment, availability of fresh water, labour disturbances / unrest and tourist receipts. Whilst the Malawi government uses investment incentives as a key to FDI attraction, researchers found that incentives are not ranked as important to prospective investors.

Key words: foreign direct investment, FDI factors, country and industry level FDI, tourism, government policy, investment incentives, FDI attraction.

OPSOMMING

Ten spyte van verskeie uitdagings wat daarmee gepaard gaan, word Buitelandse Direkte Belegging (BDB), veral in ontwikkelende lande, as een van die middelevirekonomiese ontwikkeling beskou. In die toerismebedryf dra BDB broodnodige kapitaal, tegnologie, bemarkingsvaardigheid en bedryfstelsels by tot die gasheerland wat andersins nie tot die gasheerland se beskikking sou wees nie. Beide ontwikkelde en ontwikkelende lande kon kurreer altyd om BDB aan hul lande te lok.

Die hoofdoel van hierdie studie was dus om faktore te ondersoek wat beleggers in ag neem wanneer BDB in die toerisme-akkommodasiesektor in Malawi onderneem word. Malawi bly steeds een van die min lande in Afrika wat nie betekenisvolle BDB aansy toerisme-akkommodasiesektor gelok het nie. Die doelwit van hierdie studie is viervoudig: om buitelandse direkte belegging te analiseer; om land- en bedryfsvlakfaktore wat toerisme-BDB beïnvloed, te identifiseer; om Malawi se algemene beleggingsklimaat te analiseer en om aanbevelinge by die regering en industrië te doen om BDB te lok.

'n Literatuurstudie oor BDB oor die algemeen en BDB watter is aantourisme, asook die beleggingsklimaat van Malawi, is gedoen. 'n Empiriese studie is deur middel van 'n kwantitatiewe navorsingstudie uitgevoer. Die steekproef is deur middel van 'n waarskynlikheidssteekproef metode afgelei en is uit 'n nasionale toerisme-akkommodasie databasis uitgetrek.

Die navorsing het getoon dat daar 'n sterk verhouding is tussen landsbron van toerisme-akkommodasie BDB en lande waarvantoeriste afkomstig is. Daar is ook ontdekte ekonomiese faktore, persepsie en infrastruktuur, staatsbeleid, konkurrerende aard – in dieselfde volgorde – belangrike oorwegings is wanneer daar in Malawi se toerisme-akkommodasiesektor belê word. Bedryfsvlakfaktore wat respondent as belangrik beskou het, is die beskerming van belegging, beskikbaarheid van vars water, arbeidsonluste/-onrus, toeristeontvangste. Terwyl Malawi se regering beleggingsaansporings as sleutel tot BDB-aantrekkingskrag gebruik, het navorsers tog ontdekte aansporings nie as belangrik vir voornemende beleggers beskou word nie.

Sleutelwoorde: buitelandse direkte belegging, BDB-faktore, land- en bedryfsvlak-BDB, toerisme, staatsbeleid, beleggingsaansporings, BDB-aantrekkingskrag

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LIST OF ABBREVIATIONS

ADB	African Development Bank
COMESA	Common Market for Eastern and Southern Africa
ESCWA	Economic and Social Commission for Western Asia
GDP	Gross Domestic Product
GNP	Gross National Product
FDI	Foreign Direct Investment
HDI	Human Development Index
IAC	Investment Approval Committee
ICSID	International Centre for Settlement of Investment Disputes
LDCs	Least Developed Countries
MTWC	Ministry of Tourism, Wildlife and Culture
MIPA	Malawi Investment Promotion Agency
MIGA	Multilateral Investment Guarantee Agency
MNE	Multi-national Enterprise
MTA	Malawi Tourism Association
NICO	National Insurance Company
OECD	Organisation for Economic Co-operation and Development
PSIP	Public Sector Investment Programme
RETOSA	Regional Tourism Organisation of Southern Africa
SA	South Africa
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
SSPS	Statistical Programme for the Social Sciences
TNC	Trans-national Company
UK	United Kingdom
USA	United States of America
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

Foreign Direct Investment (FDI) is widely considered a key component for stimulating economic development and integrating an economy into the global economy (Tytell & Ydaeva, 2007:76; Bulcke, Zhang & Esteves, 2003:2). It is believed to contribute more to economic development in developing countries than domestic investment (Dunning & Lundan, 2008:316). In low income countries, FDI has become one of the major sources of investment capital (UNCTAD (United Nations Conference on Trade and Development), 2008:9). FDI is also considered one of the most important channels through which countries can access global finance (Campos & Kinoshita, 2008:3).

1.1.1 GLOBAL TOURISM FDI

In 2007, global FDI inflows increased by 30% to US\$1,833 billion in 2007 (AU, 2009:34). In the same year, Africa experienced an FDI inflow totalling US\$53 billion. Amongst Least Developed Countries (LDCs), African countries have always received the largest inflow of FDI (United Nations, 2008:3). However, developing countries' tourism FDI only constitutes 10% of global FDI inflows (UNCTAD, 2007:2).

Globally, Tourism is the largest industry in the world, accounting for nearly one-third of total global service trade in 2004 (Debbage & Galloway, 2009:582). According to the World Tourism Organisation (quoted by Hall & Coles, 2008:5), tourism is the primary source of foreign exchange earnings in 46 of the 49 poorest countries in the world.

1.1.2 NATURE OF TOURIST ACCOMMODATION FDI

Several studies (Sinclair & Stabler, 2002:136; Colantonio & Potter, 2006:33; Pham, 2004:5; Michalet, 1997:6; Zhang, Pine & Lam 2005:148; Yu, 1999:71) have shown that FDI in tourism takes a number of modes. These are wholly owned subsidiaries, joint ventures, management contracts, franchising and hotel consortia.

Zhang, *et. al.* (2005:145) and Johnson and Vanetti (2008:288) note that the global hotel industry is dominated by hotel chains, the biggest of which continue to expand mainly through acquisitions and partnerships with other chains. However, the market share of major hotel multinationals is small, contrary to common belief (Johnson & Vanetti, 2008:288). In 1998 it accounted for less than 20% of the world's hotel supply (Debbage & Galloway, 2009:585).

Since tourism is a service that is exported, it shares the same characteristics as export-oriented manufacturing (Easson, 2004:122). FDI in tourism is either market or supply oriented (Go, 2004:68) and is also market-seeking (Organisation for Economic Co-operation and Development (OECD), 2004:81).

Interestingly, Shaw and William (2004:53) argue that, in tourism, no single firm has a significant market share in comparison to other industries that produce products or services such as Coca-Cola and Microsoft. This is because the tourism industry is highly fragmented. Fragmentation of the tourism industry makes it easier for several players to get in. Tourism is, to a large degree, dependent on the type and quality of accommodation and accommodation is the life blood of the tourism industry (Bhatia, 2001:394 & Freeman & Felsenstein, 2007:248,255).

1.1.3 MALAWI TOURISM INDUSTRY AND FDI

In Malawi, international tourist arrivals grew at an annual average rate of 12% from 227,600 in 2000 to 755,000 in 2009. (Malawi Department of Tourism, 2009:5). Overall, Malawi's total tourist receipts increased from US\$43 million in 2006 to US\$48 million in 2007 representing an 11.6% increase. Tourism's contribution to GDP grew from 1.3% in 2005 to 4.7% in 2007. The Regional Tourism Organisation of Southern Africa (RETOSA) (2006:11) notes that countries whose tourism sectors contribute more to GDP are more likely to view tourism as important and therefore give the industry priority in its policies and strategies than countries whose tourism sectors contribute less to GDP. For example, in the SADC region, tourism is considered a priority industry in Mauritius where it represents more than 25% of GDP. Worldwide, the average tourism contribution to GDP is 10.6%. In the SADC region, only Botswana, Namibia and Mauritius exceed the worldwide average, whilst South Africa and Tanzania are getting closer to the world average.

According to Malawi Government (2006:33), tourism has been identified as one of the four key priority industries aimed at contributing towards economic growth. To facilitate private sector investment in tourism, the Malawi government aims to prioritise the construction and rehabilitation of roads and landing strips to key tourist destinations. In addition, Tourism Intelligence International (2008:16) recommends that Malawi review its current investment incentive regime which only allows investors to access incentives in the year they are applied for and approved. Considering that most tourist accommodation projects span over more than one year, the review will ensure that investors do not lose incentives granted in the year the project was approved.

Currently, Malawi has one international hotel group, Protea Hotels, which operates in the country on a management contract basis and not as an equity investor (World Bank, 2010b:36). The country's efforts to attract regional and internationally renowned hotel brands such as Southern Sun, Holiday Inn and the Legacy Hotel group has not been successful. Therefore, there is need for the country to attract meaningful FDI into its tourist accommodation sector.

The main aim of Chapter 1 will be to introduce the research study and outline the research problem. It will provide background to relevant factors that influence FDI flows into the Malawi tourist accommodation sector and, by extension, developing countries' tourist accommodation sectors. The chapter will also outline the objectives of the study, methodology and data analysis techniques to be used in interpreting the empirical study findings.

1.2 PROBLEM STATEMENT

Tourism FDI is largely concentrated in developed countries, since 85 to 90% of Trans-national companies (TNCs) are located in developed countries. Developing countries account for a small portion of the total portfolio of hotels held by the world's main hotel chains (UNCTAD 2007:13, 24).

In addition, several researchers Yu (1999:34), Anand (1997:103) and Snyman and Saayman (2009:50) observed that FDI in the tourism industry is a capital intensive business that requires a huge capital outlay for supra-structure construction even before operations begin. This poses a special challenge for tourism FDI as potential investors have to carry out a comprehensive cost-benefit analysis and feasibility studies to ensure that they invest in the right country (Moran, 1998:38; Madura & Fox, 2007:463 & Yunis, 2004:107). According to Vella and Bechereal (quoted by Snyman & Saayman, 2009:50), tourism projects have a relatively longer payback period than investment projects in other sectors.

1.3 MOTIVATION FOR THE STUDY

In spite of the high capital investment required for tourism projects, a number of researchers such as Gries (2005:51), Razafimahefa and Hamori (2007:64), Kiggundu (2002:158) and Naude and Krugell (2004:5) found that Africa is a very profitable investment destination even though the continent continues to attract low levels of FDI. However, researchers such as Michalet (1997:7) still found that thorough assessment of

a country's economic and political stability was a precondition even before return on capital is determined.

In tourism, the nature of FDI tends to be influenced by the stage and level of tourism development and tourism related assets (Dwyer, 2005:299 & UNCTAD, 2007:33). Yunis (2004:109) and Dwyer (2005:297-298) note that foreign investors will be attracted to invest in countries with effective tourism marketing strategies and promotional programmes which are well funded. In addition, several studies (Yu, 1999:19; UNCTAD, 2007:33; Yunis, 2004:107; Pham, 2004:52; Snyman & Saayman, 2009:52) have shown that there is an apparent direct correlation between FDI inflows and foreign tourist arrivals, and that hospitality development patterns follow international tourist arrival patterns. However, other studies (Kumar, 1998:190 & OECD, 2003:105) have found that some developing countries are fast becoming major sources of FDI for fellow developing countries, accounting, for example, for up to 35% of total global share of FDI in Latin America alone. In addition, Thomas (2005:178) notes that South Africa, a developing country, accounts for between 10% and 20% total FDI investment in Africa.

On its part, Malawi, has struggled to attract FDI into its tourist accommodation sector. In term of accommodation units, Tourism Intelligence International (2008:24) notes that there are approximately 478 licensed accommodation units, 26% of which are in Lilongwe, the capital city, and 19% in Blantyre, the commercial capital of Malawi. Rest houses, which are very basic accommodation units catering largely for domestic travellers and usually of very low quality, account for 55% of the total number of accommodation units. Lodges represent 32 and hotels represent only 5.4% of the total number of accommodation units in Malawi.

Research by Lall (1997:338), Mukasa (2008:95), Yunis, (2004:107), Dunning and Lundan (2008:138), and Pham, (2004:10) has shown that the business environment, regulatory environment, basic infrastructure, policy framework, social and political stability and a broad mix of positive economic variables are essential for attracting FDI. ANON (2008:8) found that "... in Africa, most common problems experienced by tourism investors revolve around corporate governance and transparency, land tenure, infrastructure and services, onerous bureaucracy, and unrealistic government requirements." In addition, Asiedu (quoted by Moss, Ramachandran & Kedia, 2006:346) noted that most African countries have carried out substantial economic reforms but that the fall in African FDI as a percentage of total FDI can be partly attributed to relatively weaker and slower policy reforms than in other regions. Dupasquiere and Osakwe

(2005:13-15) sums up three main reasons why African countries' struggle to attract FDI as follows:

- Political instability due to incidences of war, military intervention in politics and tribal conflicts
- Macroeconomic instability characterised by high inflation rates and excessive budget deficits
- Lack of macroeconomic policy transparency and stability due to high frequency in change of government

In spite of the small FDI flows received by sub-Saharan Africa, UNCTAD (2007:7) found that most countries in sub-Saharan Africa (SSA) continue to promote their countries as tourism investment destinations. However, some developing countries, whilst desperate for tourism investment, have gone to the extent of offering potential investors huge investment incentives (Middleton & Hawkins, 1997:100; Weigel, Gregory, Wagle, IFC (International Finance Corporation) & FIAS (Foreign Investment Advisory Services (1997:45). For example, Zambia believed for many years that fiscal incentives were one of the main factors influencing FDI decisions (UNCTAD, 2006:57). In addition, the United Nations (2009:94) notes that countries like Malawi, Ghana and Kenya provide tax holidays to prospective investors. Mauritius also offers various incentives to attract FDI into the tourism industry (Peerally & Cantwell, 2009:215). However, to grow and market FDI, it is of critical importance for a country or destination to understand the factors driving FDI (Snyman & Saayman, 2009:56)

Considering that none of the above studies explicitly identified the factors that influence FDI decisions in the tourism industry, the question behind this research is: what are the country and industry level factors that influence FDI decisions in the tourism accommodation industry in Malawi? For Malawi, the study focuses on the tourist accommodation sector not only because the country is one of the few countries in Africa that have been unsuccessful in attracting FDI into this sector, but also because, as argued by Bhatia (2001:394), the tourist accommodation is the lifeblood of the tourism industry. Freeman and Felsenstein (2007:255) also note that a tourism industry can develop only if it has adequate tourist accommodation.

1.4 GOAL OF STUDY

The main goal of the study was to identify the country and industry level factors that investors consider when undertaking foreign direct investment (FDI) in Malawi's tourist accommodation sector. The objective of the study was therefore fourfold:

1. to analyse the concept and aspects pertaining to foreign direct investment
2. to investigate both country and industry level factors that influence tourism FDI decisions
3. to analyse Malawi's general and tourism-specific investment climate
4. to make recommendations to Malawi's government and industry on factors that investors consider when undertaking tourism FDI.

1.5 METHOD OF RESEARCH

The research included both a literature study and a survey.

1.5.1 LITERATURE STUDY

The study was based on academic journals, newspaper and magazine articles, government publications, books and an e-mail survey. The following databases and literature were used in the study:

- Library databases
- Malawi Tourism directories
- SAcad (Journals)

The following keywords were used in obtaining information for the study:

- FDI
- Tourism
- Factors influencing Tourism FDI decisions
- FDI theories
- FDI promotion
- Hotel FDI
- Tourism Multinationals

1.5.2 EMPIRICAL SURVEY

The empirical survey included the following processes:

1.5.2.1 RESEARCH DESIGN AND METHOD OF COLLECTING DATA

The empirical survey involved selection of the research method, identification of the sample, deciding on the data collection method and the measuring instrument.

Considering that Malawi has few tourist accommodation units, most of which are small, the survey concentrated only on those accommodation establishments from the Malawi Tourism Directory, which had an element of FDI in them, that is, 10% or above foreign ownership.

Fifty questionnaires were e-mailed to respondents and 37 of these were returned but 2 were found to be incomplete and therefore could not be used. The total response rate was therefore 70%.

1.5.2.2 SAMPLING STRATEGY

The population was made up of tourist accommodation units based in Malawi with some foreign ownership. The sample was drawn from the Malawi Tourism Directory and every accommodation unit which had a 10% or more greater FDI element was included in the sample.

Since the sample frame, which is a record of all available elements available for selection is small, the research used the population of 50 accommodation units as the sample (Rice, 2008:51; Lohr, 2010:17; Meyer, 2002:112).

1.5.2.3 DEVELOPMENT OF A QUESTIONNAIRE

The questionnaire was developed to provide information where gaps exist in the literature, and to test the validity and relevance of certain findings in other fields where FDI occurs other than tourism.

According to Clark, Riley, Wilkie and Ward (1998:91), when designing a questionnaire, one should be guided by what one really wants to know about a topic, how much the interview subjects know about the subject and what would be measured. Nykiel (2007:60) further suggests that the questions in a questionnaire need to be linked to statistical techniques. All questions should be linked to the research question and should follow a logical sequence, from easy going to more difficult ones (Long, 2007:58,73).

The questionnaire was made up of two sections as follows:

1. Demographic Information

This section included questions on the interview subject, that is, type of organisation, international presence, and size of organisation in terms of capitalisation, country of origin and the tourism sector in which they operate.

2. Factors Influencing Tourism FDI

The questionnaire had 55 questions which asked the respondent to rate the degree of importance of a number of factor groups. These were general factors, political factors, economic factors, labour factors, financial factors and the state of the tourism industry.

The questionnaire was designed in such a way that less involved questions appeared first, gradually building up to questions that required more thought to be answered. A Likert scale format was used to allow respondents to indicate their level of agreement or disagreement (Sirkin, 2006:43). Perloff (2003:104) proposes the use of either 5- or 7-point scales so that respondents are not overwhelmed by choices.

The questionnaire was tested on a randomly selected sample of 10 respondents. The pilot test looked at the total time it took to answer questions, the logical flow of questions, and the placing of control questions to ensure the credibility of the interviewee, among other things. The feedback from the pilot survey was used to improve the questionnaire accordingly.

1.5.2.4 DATA ANALYSIS

A factor analysis of the collected data was done at the Malawi Polytechnic, a constituency college of the University of Malawi Mathematics and Statistics Department. The factor analysis was done using Statistical Programme for the Social Sciences (SPSS 16.0).

A principal component factor extraction method with Kaiser's criteria with eigen values of 1 or greater was performed on 57 items where five groups of factors were retained explaining 54.377% of the variance. Tables were used to present the analysed data and each table was explained.

Factor analysis was used to identify factors for further investigation.

1.6 DEFINING CONCEPTS

The following three concepts and terms will be referred to regularly in the study and are defined below:

1.6.1 FOREIGN DIRECT INVESTMENT

According to Froot (1993:43), FDI is "...the acquisition by a firm in one country for control over business or activity in a second country." Moosa (2002:1) further defines FDI as the process where a resident of one country acquires ownership of assets with the aim of controlling production, distribution and other activities in another firm. The investor's interest in management has to be long term (Stone & Jomini, 2002:245). For statistical reasons, the acquisition has to be through purchase of voting stock, a minimum of which should be 10% of the equity of an enterprise (Weigel, Gregory, & Wagle, 1997:9). There is, however, no international agreement on the minimum equity stake but this varies between 10% and 25% for the majority of countries (Dunning & Lundan, 2008:7).

The investor's purpose in acquiring the foreign firm's voting stock is to be able to exert a significant degree of influence on the management of the firm (Dunning & Lundan, 2008:5). In that regard, ownership of capital assets needs to be large enough to enable an investor have partial or full control of the firm (Pham, 2004:4).

For the purpose of this study, FDI will be defined as the acquisition of a lasting interest, of a minimum of 10% of the voting stock or capital assets, in an existing or new enterprise by a foreign-based enterprise in another country for the purpose of exerting significant control and influence over the management decisions and policy of the enterprise.

1.6.2 SUB-SAHARAN AFRICA

Sub-Saharan countries comprise 48 countries in Africa (Umeadi, 2008:1). This includes some countries within the Sahara desert and those located south of the Sahara. Sub-Saharan Africa includes virtually all countries in Africa with the exception of the North African countries of Egypt, Libya, Morocco, Tunisia and Algeria. The grouping includes some countries which are wholly in the Sahara desert such as Mali and Chad (Belshaw & Livingstone, 2002:3). However, Seriki (2007:36) notes that sub-Saharan countries includes 42 independent nations on the African mainland six islands of Cape Verde, Comoros, Madagascar, Mauritius, Sao Tome & Principe and Seychelles. The term, sub-

Saharan Africa is more of a geographic term than an economic term as the region is made up of countries which are at different stages of economic development.

For the purpose of this study, sub-Saharan Africa will include all countries in Africa, including offshore islands, but excluding Morocco, Egypt, Libya, Algeria and Tunisia.

1.6.3 TOURISM INDUSTRY

According to Kusluvan (2003:3), "The tourism industry refers broadly to firms, organisations and facilities providing goods and services wholly or mainly for the specific needs and wants of visitors (i.e. tourists and excursionists). Beaver (2005:314) also provides a similar definition in which he notes that the tourism industry is made up of all firms, organisations, and facilities that are intended to service the specific needs and wants of tourists.

However, Lickorich & Jenkins (1997:1) suggest that the use of the term tourism industry is problematic because the latter denotes that there is a production process, of which tourism is not. They prefer tourism sector to tourism industry. In the United States of America, for example, terms such as visitor industry, hospitality industry and travel industry are used to mean the same thing (Phelps & Raines, 2003:1). Differences in the types of accommodation and modes of transport used by tourists have, however, given rise to various interpretations as to which other sectors belong to the tourism industry.

For the purpose of this study, the tourism industry will be defined as all services, facilities and goods directed towards satisfying the needs and wants of a visitor.

1.7 CHAPTER CLASSIFICATION

The study has five Chapters:

Chapter 1 will introduce the study topic, present the research problem and highlight the reason the study is to be carried out. The chapter will also provide a brief background to Foreign Direct Investment and the objectives of the study.

Chapter 2 will discuss a theoretical overview of Foreign Direct Investment (FDI) and Tourism, forms of FDI and factors that influence FDI flows into a country. The chapter will also explore reasons why multinational enterprises invest in these countries.

Chapter 3 will examine the Malawi investment climate and the measures the country has taken to attract FDI into its tourist accommodation sector.

Chapter 4 will highlight the findings of the field research and data collected through use of questionnaires.

The final chapter examines the findings of the empirical study and compares them with exiting literature on FDI and then makes recommendations on the way forward. It will also include concluding remarks of the study.

CHAPTER 2

OVERVIEW OF FOREIGN DIRECT INVESTMENT (FDI)

2.1 INTRODUCTION

The Chapter will provide a theoretical overview on Foreign Direct Investment (FDI) and Tourism and discuss forms of FDI and factors that influence FDI flows into a country. It will further examine findings of past research on FDI flows into the tourist accommodation sector and explore reasons why multinational enterprises invest in foreign countries.

It will also seek to discuss, in detail, the evolution and progression of general FDI theories, their strengths and weaknesses, whilst narrowing down to theories that have been adapted to tourism-specific FDI. It will also examine various definitions of FDI.

2.2 DEFINITION OF FOREIGN DIRECT INVESTMENT

The benchmark definition of Foreign Direct Investment (FDI) is provided by the OECD (Jones & Wren, 2004:7; Neuhaus, 2006:42) which defines FDI as a lasting interest by a resident firm in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise). However, Gilis and Thirwal (quoted by Pham, 2004:4), Jones and Wren (2004:27) and Oman, Chesnais, Pelzman and Rama (1989:17) argue that FDI does not only involve the transfer of financial resources, but also physical capital, technology, organisational and management skills. The terms inward investment, foreign direct investment and mobile investment are often used interchangeably (Phelps & Raines, 2003:1; Jones & Wren, 2004:208; Dicken, 2007:182). Pham (2004:5) notes that FDI moves from countries with lower returns where capital is in abundant supply to countries where capital is scarce but the returns higher.

Most definitions of FDI contain five main elements;

- firstly, the investing firm or individual should be foreign based
- secondly, investment should be in another country
- thirdly, the investment should involve the purchase of at least 10% of voting stock or equity
- fourthly, the purpose of the investment should be to influence management decision and policy

- lastly, the investment should be long-term (Okodua, 2009:59; Hobden, 2008:62-63; Jones & Wren, 2004:7-8; Cohen, 2007:65; Naude & Krugell, 2003:2)

However, Twomey (2000:13) and UNCTAD (2007:8) disagree on whether an investment by foreign nationals in the country of residency constitutes FDI. Furthermore, Singh (2008:152) argues that FDI is not based on nationality or citizenship of the investor but on residence. The question that would therefore arise is whether the source of the invested funds should be the yardstick to determine whether the investment is foreign and direct.

Moosa (2002:1) further defines FDI as the process whereby a resident of one country (the source country) acquires ownership of assets with the aim of controlling production, distribution and other activities in another firm in another country (host country). The investor's interest in management has to be long term (Stone & Jomini, 2002:245; Neuhaus, 2006:42). In addition, the acquisition has to be through purchase of voting stock - a minimum of which should be 10% of the total equity of an enterprise (Weigel *et al.*, 1997:9). Nevertheless, there is no international agreement on the minimum equity stake but this varies between 10% and 25% for the majority of countries (Dunning, 2008:5). However, Jones and Wren (2006:8) argue that there is an exception when 10% is insufficient for the investor to have control in management of the company or, conversely, when the investor has management control in the firm even when they own less than 10% of the equity capital. Singh (2008:152) argues that FDI does not necessarily mean control of a foreign company, since only 10% ownership of equity stock is required to establish a direct investment relationship.

Farrel (2000:16) also maintains that it does not necessary follow that a foreign investor will attain corporate control if their investment exceeds a certain ratio. The primary difference between foreign direct investment and other forms of international investment is the element of control over management policy and decisions and the intention to build a long-term relationship (Moosa, 2002:1; Jones & Wren, 2006:8). An investor should purchase a sufficient equity share to have a say in the foreign company (Neuhaus, 2006:42). The investor's purpose in acquiring the foreign firm's voting stock is to be able to exert a significant degree of influence on the management of the firm (Dunning & Lundan, 2008:5). In that regard, ownership of capital assets needs to be large enough for an investor to enable him or her to have partial or full control of the firm (Pham, 2004:4).

Several theories have been developed over the years to explain why firms engage in FDI. The theories applicable to the tourism industry are discussed in Section 2.3

2.3 GENERAL THEORIES OF FDI

The origin of FDI theories can be associated with early classical economists such as Adam Smith and David Ricardo, who first noted the importance of international specialisation in production as a means of increasing economies of scale (Dreyhaupt, 2006:20). Porter also developed the natural competitive advantage theory which, though not specifically developed to explain foreign direct investment, is widely quoted in FDI literature. He notes that for a country to attract FDI it has to be competitive economically (Hou & Zhang, 2002:222).

The main objective of most FDI theories is to explain the economic mechanisms and impact of host and home countries and the spatial dimension is often ignored with the exception of eclectic and Vernon's product life cycle theory (Carter, 2005:209). Morgan and Thorpe (2001:34) further note that much literature on FDI has been characterised by inconsistent and diverse views varying from international investment to diversification theory, industrial organisation theory and monopolistic advantage.

Moosa (2002:23) classifies FDI theories into four categories. These are theories assuming perfect competition; theories assuming imperfect competition; other theories; and theories based on other variables. However, Paul (2008:225) notes that cost of transport, strategic rivalry, product life cycle and location are key factors that influence a company's decision to invest abroad.

Over the years a number of FDI theories have been developed and these include Knickerbocker's Theory also known as the strategic rivalry, rate of return theory, product life cycle theory and location specific theory (Paul, 2008:226). Other FDI theories, which are based on hypotheses that have been developed over the years include the portfolio diversification hypothesis, the output and market size hypothesis, the industrial organisation hypothesis, internationalisation and the eclectic theory. A few of the theories that are applicable to the tourism industry are discussed below:

➤ **Knickerbocker's Theory**

According to Paul (2008:226), **Knickerbocker's theory**, which is also known as **the oligopoly theory**, stipulates that FDI flows are a product of strategic rivalry between companies in the global marketplace. It argues that firms are always monitoring each other as competitors and any action by one of them forces the other to respond

accordingly. FDI is therefore driven by the need of competing companies to claim a stake in the world marketplace.

➤ **Differential Rate of Return Theory**

The second theory explaining FDI, and which became popular in the 1950s, is the **differential rate of return theory** which assumes that differential rate of return is a cause for FDI flows. It was the first attempt to explain why companies invest abroad. The theory argues that capital flows from countries with low rates of return to countries with higher rates of return (Moosa, 2002:24). However, Dreyhaupt (2006:23) notes that the theory does not adequately explain why investors would prefer FDI to portfolio investment which is less risky if both of them generate the same rate of return. Investors are not only influenced to invest by rate of return, they also consider the risk that comes with the profit. Furthermore, this theory would not be applicable to countries that experience both inflow and outflow of FDI and firms can also indulge in FDI for motives other than profits. Companies may invest abroad to penetrate foreign markets and thereby increase their sales revenue.

➤ **Portfolio Diversification Theory**

The third theory that attempts to explain FDI is the **portfolio diversification theory**, which argues that the choice of investing abroad is not only determined by profit but also by the degree of risk. Companies intending to invest abroad are always wary of risks inherent in host countries and therefore look to diversify their investment to reduce risk. However, this theory fails to explain why companies prefer FDI to portfolio investment. It also falls short in explaining the situation in developing countries where financial markets are less developed and therefore not attractive to foreign investors (Moosa, 2002:24-27).

➤ **Output and Market Size Hypothesis**

Fourthly, the **output and market size hypothesis** assumes that volume of FDI in a host country depends on the size of the market which is measured by sales in that country or its GDP. The theory further assumes that as soon as a country's market size grows to a certain level it will attract foreign firms (Moosa, 2002:27). Its application in the tourism industry is that foreign hotel brands will always seek to enter into large foreign markets (Neuhaus, 2006:144).

However, critics of the theory argue that the relevance of GDP as a measure of the potential market has not been confirmed empirically and also that market size will largely attract FDI from firms that are interested in producing for the domestic market and not for export. There is also the likelihood that a country with vast mineral resources may have

a huge GDP whilst its people's levels of income remain very low. This theory would not also apply where a company is interested in a niche market, that is a small segment of society, contrary to the theory which mainly applies to mass marketed products.

➤ **Product Life Cycle Theory**

According to Paul (2008:226) and Moosa (2002:29), Vernon developed a theory that sought to explain FDI using a product lifecycle model. He argued that, as a product develops, its cost advantage will change accordingly and a comparative advantage in innovative capacity will be offset by a cost disadvantage. According to Paul (2008:226), Vernon established that a country will produce a product without taking into account the cost of production in other countries as long as it has customers and suppliers to service within close proximity. In tourism, the theory implies that when a hotel group reaches a point where it is dominant in its home country, that is, has reached market saturation, it can then expand across international borders to broaden its client base.

However, Singh (2008:160) notes that the product life cycle theory does not pinpoint clearly when to invest. In addition, the theory does not explain why companies choose FDI over other forms of market entry such as direct exporting.

➤ **The Eclectic Paradigm**

The **eclectic paradigm**, which was developed by John Dunning, a British economist, is based on location-specific advantage which can help explain the nature and direction of FDI and is widely considered as one of the most established and frequently tested FDI theories (Paul, 2008:227; Hou & Zhang, 2002:222; Huang, 1997:5). This theory treats existing FDI theories as complementary to each other and attempt to combine all existing FDI theories into a single united analytical framework (Huang, 1997:11; Moosa, 2002:36).

According to Moosa (2002:36), the eclectic theory integrates the industrial organisation hypothesis, the internationalisation hypothesis and the location hypothesis. It aims at providing answers as to why demand in a particular country is not met by a local firm or by a foreign firm exporting to the country; why firms that want to expand their operations do not produce at home to export or expand into a new product line; why firms do not indulge in portfolio investment in a foreign firm and why it does not consider licensing its technology.

Dunning (quoted by Moosa, 2002:36), notes that three conditions have to exist for a company to engage in FDI. These conditions are:

- Firstly, the company should have ownership advantages that will give it a comparative advantage over local firms. These advantages could be superior technology, monopoly power and size, and access to raw materials among other things.
- Secondly, the company must find it advantageous to use these advantages rather than to sell or lease them (internationalisation).
- Lastly, it must be profitable for the firm to use these advantages in combination with at least some factor inputs located abroad (location specific).

Kim and Choi (2004:19) also note that numerous case studies of FDI in developed centres indicate that factors that influence FDI decisions are based on five main strategic considerations. These are **market seeking, raw material seeking, production efficiency seeker, technical and managerial knowledge seeker and political safety seeker**. Foreign companies' decisions to invest abroad are influenced by contingent future market costs.

Whilst general theories explaining FDI have also been applied to the tourism industry, Tourism FDI (Section 2.4) has certain characteristics (Section 2.4.1) and entry modes (Section 2.4.2) that make it different from other types of FDI.

2.4 TOURISM FDI

The global distribution of FDI is highly unequal and, as such, countries find themselves fighting fiercely to attract FDI (Heshmati, 2008:29). According to Debbage and Galloway (2009:584) and Cornelissen (2005:14) tourism is a highly complex system which packages and sells places on a global scale making it vulnerable to economic, political and social issues. Tourism is also now the largest industry in the world accounting for nearly one-third of total global service trade in 2004 (Debbage & Galloway, 2009:582). The industry is a complex network of interdependent organisations involved in providing accommodation, transport, food, entertainment and communication to tourists (Go, 2004:63). According to the World Tourism Organisation (quoted by Mihalic, 2002:92), tourism is one of the top five export categories for 83% of all countries and the main source of foreign currency for at least 38% of the countries.

About three quarters of global FDI flows are in developed countries (Benson & Clay, 2003:7 & Gallagher & Zarsky, 2007:15). Poor countries, most of which are in sub-

Saharan Africa, lack basic tourism infrastructure and are considered unsafe for tourists and therefore find themselves unable to attract tourism FDI (Bianchi, 2002:290-291). Dupasquire and Osakwe (2005:15) further argue that poor supporting infrastructure such as telecommunications, transport and power supply increase transaction costs and reduces productivity. Batra *et al.* (cited by Asiedu, 2004:377) note that lack of adequate infrastructure was ranked second as an FDI constraint in a World Bank survey.

Zhang *et al.* (2005:145) and Johnson and Vanetti (2008:288) note that the global hotel industry is dominated by hotel chains, the biggest of which continue to expand mainly through acquisitions and partnerships with other chains. However, the market share of major hotel multinationals is negligible, contrary to popular opinion (Johnson & Vanetti, 2008:288). In 1998 it accounted for less than 20% of the world's hotel supply (Debbage & Galloway, 2009:585).

UNCTAD (2007:6) notes that tourism is an activity where capital, knowledge and access to global marketing and distribution chains are critical. FDI is therefore considered one of the most effective engines for harnessing these elements. Sinclair and Stabler (2002:136) note that hotel multinationals have engaged in both horizontal integration in form of FDI, leasing, managing contracts, franchising and marketing agreements.

2.4.1 UNIQUE CHARACTERISTICS OF TOURIST ACCOMMODATION FDI

Tourist accommodation FDI has certain unique characteristics (Tassiopoulos, 2008:21). This makes it different to other forms of FDI as outlined in Table 2.1 below:

Table 2.1: Characteristics of Tourist Accommodation

Tourist Accommodation	Implications
Heterogeneity (Bennet & Strydom, 2001:5)	Value for money not same for guests who might have paid same rate
Parity (Snyman, 2007:31)	Need to differentiate unit from other units as basic product is similar
Complementarity (Bennet & Strydom, 2001:6)	Other tourist products and services may affect overall quality
Perishability (Imperial, 2006:193 & Lockyer (2007:3)	Unused rooms cannot be stocked and therefore represent a loss

Tourist Accommodation	Implications
Seasonality (Lockyer, 2007:2)	Demand variation & occupancy levels
Large capital investment Anand, 1997:103; Yu, 1999:34)	Need to be certain investment will be profitable
Real estate component (Imperial, 2006:187, Cummings, 2008:3)	Can be converted to other forms of accommodation

Source: (Compiled from various sources)

Tourist accommodation has unique characteristics it shares with other tourist products. However, Table 2.1 presents some of the characteristics peculiar to the tourist accommodation sector namely; heterogeneity, parity, complementarity, perishability and seasonality.

According to Keyser (cited by Snyman 2007:34) and Bennet and Strydom (2001:6) **heterogeneity** refers to variation in level or quality of service a client receives depending on level of skill of accommodation unit employees, time of day or their mood, among other things. **Parity** means similarity in products or services offered by different companies.

Complementarity implies interdependence of tourism products and services. For example, accommodation units are not the only products travellers will utilise but also transport and other tourist facilities (Bennet & Strydom, 2001:6). In the tourist accommodation sector **perishability** implies that all unused rooms will represent a loss to the accommodation unit as they cannot be stocked. According to Lockyer (2007:2) **seasonality** means demand for tourist accommodation units fluctuates during the year.

The above characteristics affect not only the profitability of a tourist accommodation unit but also the decision whether an MNE would invest in a country. In demonstrating the complexity of the tourism industry, Imperial (2006:187), Yu (2008:74), Cummings (2008:3) and Barrows and Power (2009:364) note that the hotel industry is basically made up of two elements; real estate and hotel operations, and that hotels enter into business as investors in real estate management. Dwyer (2005:529) further notes that tourism is also integrated with other economic sectors. Since tourism is a service, which is exported in that a foreigner travels to the host country to consume it, it shares the

same characteristics as export-oriented manufacture (Easson, 2004:122). FDI in tourism is either market or supply oriented (Go, 2004:68) and is also market seeking (OECD, 2004:81).

2.4.2 TYPES OF TOURISM FDI ENTRY MODES

Several researchers (Sinclair & Stabler, 2002:136; Colantonio & Potter, 2006:33; Pham, 2004:5; Michalet, 1997:6; Zhang *et al.*, 2005:148; Yu, 2008:71) found that FDI in tourism takes a number of forms, such as wholly owned subsidiaries, joint ventures, management contracts, franchising and hotel consortia. Yu (2008:67) notes that global hotel expansion is influenced by three factors; sales expansion, geographical diversification and brand recognition. A summary of the five main forms of FDI in the tourist accommodation sector is given in Table. 2.2 below:

Table 2.2: Modes of Tourism FDI Entry

Types of Investment	Benefit	Costs
<p>Total Ownership 100% ownership of equity by a foreign subsidiary for an unlimited time</p>	<p>No financial risk to host country</p>	<p>Large outflow of income from tourism (leakage) Difficulty to reflect government policy on tourism development</p>
<p>Joint Venture Partial ownership of equity by foreign capital for an unlimited time</p>	<p>Access to extra capital Access to international marketing networks Lower social / political costs of FDI Reduced income leakages</p>	<p>Requirement for a certain base capital Risk sharing Possibly unfavourable contract due to limited bargaining power</p>

Types of Investment	Benefit	Costs
<p>Franchising</p> <p>The right to do business within a prescribed manner under an existing brand name and sold to a local firm</p>	<p>Transfer of management and marketing skills</p> <p>Assumed standard of quality</p> <p>Brand image</p>	<p>Management risk is with the host country's firm</p>
<p>Management Contracts</p> <p>The business is controlled and managed by a foreign firm without the ownership</p>	<p>Possible transfer of knowledge, skill and technology (e.g. GDS) through a co-operation agreement</p>	<p>No control over the finance, management & planning</p>
<p>Hotel Consortia</p> <p>Independent hotels pool resources to compete with an integrated and franchised chain</p>	<p>Joint national and international publicity campaign</p>	<p>Small-size hotels considered attractive to a consortium</p> <p>Initial lack of brand reputation</p>
<p>Full national ownership</p> <p>Domestic investment without foreign links</p>	<p>Reduced international leakages</p> <p>Independence in adoption of corporate strategies</p>	<p>Lack of international reputation</p> <p>Higher marketing costs</p>

Source: (UNCTAD cited by Colantonio & Potter, 2006)

Table 2.2 above shows the various foreign entry modes options available to multinational companies in the tourism sector and the benefits and costs for each mode of entry. The modes start with full ownership of a firm in the host country by a foreign

company to full ownership by a domestic company. Other modes of entry include joint venture, franchising, management contracts and hotel consortia. Ussi and Wei (2011:111) found that FDI mode of entry is influenced by political and economic stability in the host country.

According to Oman, Rugman, Dunning & McQueen, Go and Pine, quoted by Michalet (1997:6); Endo cited by Debbage and Wong, and Baum (2006:98), companies in the hotel industry have shown a preference for new forms of investment such as management contracts. Handszuh (2008:34) notes that FDI in the tourism sector is currently being replaced by non-equity forms of FDI such as management contracts or franchises, making the sector the least globalised in terms of direct investment.

Furthermore, UNCTAD (2007:35, 36) found that, of the total number of hotels located in developing and transition economies, 80% are under non-equity modes of operation such as managements contracts, franchises or leases. In only 20% of hotels do TNCs have an equity stake, of which roughly half are joint ventures, the others being wholly owned. However, hotel groups with headquarters in developing countries tend to favour equity modes (66%) rather than non-equity modes (34%).

In general, three main hotel business formats, unless independent, are used by hotels: management contracting, franchising and consortia (Zhang *et al.*, 2005:148).

Section 2.4 shows that tourism multinationals have several options that can be used to enter foreign markets but, to enable them undertake FDI, a number of factors (Section 2.5) will help them in deciding whether or not to invest.

2.5 FACTORS INFLUENCING THE FDI DECISION

According to Salisu (2004:178), the main factors that influence the FDI decision, though interrelated, can be grouped into three; those related to the objectives of the prospective foreign investors (firm specific), those related to the FDI policy framework of the host country (country specific) and those related to the economic and business climate of the host country (location specific). Te Velde (2003:173) notes that factors influencing the FDI decision can be divided into two; industrial policies specifically relating to FDI and more general macroeconomic policies. Nazmi (2001:128) argues that stability of the economic, socio-political and policy environment is essential for any FDI to take place. He outlines the main factors that influence the FDI decision in Table. 2,3. below:

Table. 2.3.: Factors Impacting Foreign Direct Investment

I. Policy Environment			II. Economic Environment
a) Stability factor	b) Legal factors	c) Other factors	a) Marketing Characteristics
1. Economic Stability	1. Transparent legal system	1. Low or zero corruption	1. The current size of the domestic market
2. Socio-political stability	2. Well protected property rights	2. Low or zero bureaucratic obstacles (red tape)	2. The potential size of the market (expected growth)
3. Policy stability	3. Enforced intellectual property	3. Incentive system	3. Access to larger neighbourhood markets
	4. Pro FDI tax policy	4. After investment service	4. Consumer preference
	5. Equal treatment of foreign and domestic investors		

Source: (Nazmi, 2001)

Factors influencing the FDI decision can be looked at from two different perspectives: that of the prospective investor and that of the host country (Wei & Liu, 2001:135). Rich (2003:130) also found that factors influencing the FDI decision include benefits investors derive from FDI, costs and risks involved in undertaking FDI and the global, regional and local political environment. In explaining reasons why foreign firms undertake FDI, Go and Pine (as quoted by Johnson & Vanetti (2008:286) and Cornelissen's (2005:80) acknowledge that the FDI internationalisation theory has been applied to the hotel industry worldwide. Coincidentally, the hotel industry provided an early testing ground for the eclectic theory (Coles & Hall, 2008:86).

In their research, Dunning and Kundu (quoted by Weiermair & Peters, 2004:185) analysed 34 multinational hotels in 13 countries and found that foreign investors in the hotel industry grouped factors that they consider significant into three; ownership-specific advantages, location-specific advantages and internationalisation advantages. Ownership advantages include the knowledge and tastes of the home country's clients, investment in training of key personnel and also the brand name of the parent company. On location advantages, factors that matter include size and growth rate of the host country, opportunities for tourism, availability and quality of hotel related infrastructure and political, social and economic advantages. Lastly, internationalisation advantages include the host country's FDI policy and economic and political stability.

The above research laid a foundation for several studies (Boniface & Cooper, 2005:314; Pham, 2004:10; Michalet, 1997:15; Campos & Kinoshita, 2008:10; McMillan & Morita, 2003:45; Dinnie, 2008:221; Bradshaw, 2005:16) which have shown that tourism FDI inducements are mainly determined by economic and political factors.

Lee (2002:96) found that different types of FDI are not influenced by the same factors. In addition, the literature on FDI is massive and therefore one needs to be selective. In other words, findings in FDI literature and studies may not be replicated across the board (Moosa, 2002:62; Bradshaw, 2005:13; Marinova & Marinov (2003:94). For example, in their survey, Snyman and Saayman (2009:55) found that, in the tourism industry, travel behaviour is related to tourism investment. In addition, they found that country source of FDI is directly linked to the interests of that particular market.

Cohen (2007:82) further argues that factors influencing the FDI decision for multinational corporations in the service industry share relatively few similarities with those in the primary and secondary sectors. However, not many studies have been focused on FDI in the international tourism industry (Debbage & Galloway, 2009:584).

Wei (2004:23) notes that corruption, regulatory burden and country risk deter FDI inflows to a country. In addition, Ahrend and Westin (quoted by Bradshaw, 2005:16) notes that a high tax burden, an unfair tax system, unclear procedures, red tape, crime and corruption, and inadequate protection of property rights tend to deter foreign investment.

However, literature identifies the following major factors as influencing the tourism FDI decision:

2.5.1 MARKET SIZE AND GROWTH

According to several studies by Merleved and Shoors, Baron and Estrin, Campos and Kinoshita, Janicki and Wunnava, Corstensen and Toubal, Clausing and Dorobatu (cited by Resmini, 2007:214); Razafimahefa & Hamori (2007:62), Resmini (2007:214) and Balasubramanyam (2002:188) market size of the host country is the principal factor that influences the FDI decision. In addition, the bigger the market size, the more likely an investor will be able to recoup their fixed costs (Navaretti, Venables and Barry, 2004:141). Neuhaus (2006:143) and van Wyk and Lal (2008:519) argue that the market size of a country is reflected by its Gross Domestic Product (GDP) which is the total income of that country's economy. An emerging middle class, together with the growth of business travel, especially in developing countries, will increase the number of people patronising tourist facilities (Allington & McCombie, 2007:253; Sharma, 2004:83).

Gara (1995:64) further notes that market size covers such factors as level of development, market growth and GDP per capita and is considered the most important locational factor that investors consider when undertaking FDI. In his research on factors that influence FDI to SADC countries Botha (2008:77) found that a host country's GDP, GDP per capita, economic growth rate are the main factors investors consider when undertaking FDI. Furthermore, Dipasquire and Osakwe (2005:15) also established that African countries, in particular, fail to attract FDI because their market sizes are small compared to those in other regions of the world. This makes it difficult for foreign firms to exploit economies of scale. In another survey, van Wyk (2008:519) confirmed that market size, measured as per capita GDP, is an important factor that influence the FDI decision.

In addition, an increase in the number of visitors to a country also indirectly complements the existing market and therefore tends to attract foreign investment into the hotel industry (Pham, 2004:52; Yu, 1999:34; UNCTAD, 2007:33). According Yu (1999:19), following clients and citizens overseas is a primary driver for service firms investing abroad. For example, Nepal has seen an increase in Tourism FDI largely from tourists who have identified investment prospects during their visit to the country as tourists (Agarwal & Upadhyay, 2006:183).

Market size does not only refer to the domestic market but also the regional market in which the country is located. Djarova (2004:17), Wei (2004:21) and UNCTAD (2009:105) found that foreign investments were allocated by international companies based on both regional and country consideration as the attractiveness of countries is bound by regional characteristics and developments. In a survey on locational factors that influence FDI in the Zanzibar hotel industry, Ussi and Wei (2011:109) found that 98% of the respondents indicated that regional markets influenced their decision to invest in the Zanzibar hotel industry. Therefore, it is less surprising to note that attracting FDI has become the main goal of regional policy development (Lovering, 2003:39).

Campos and Kinoshita (2008:8) also argue that high market growth prospects can be the main driver of FDI. In addition, Lemi and Asefa (2003:58) note that, ironically, at some point growth in GDP gradually leads to market saturation, thus limiting scope for further growth and profitability of a country as local capital requirements become readily available, reducing the need for FDI.

It is also important to note that, though market size is determined by such indicators as GDP and GDP per capita, the more relevant measurements should be propensity to travel within an economy. Usually hotels, which have fixed capacity, would not ideally aim to attract huge numbers of people, but rather a small affluent segment of the society.

2.5.2 ECONOMIC AND FISCAL STABILITY

Lall (1997:22) notes that a relatively well managed economy with realistic exchange and interest rates, low inflation and manageable external debt attracts investors. In addition, Pham (2004:10) maintains that several studies have shown that major FDI inducements tend to include economic variables such as per capita income, economic growth and inflation rates. Furthermore, Lemi and Asefa (2003:47) found that economic factors such as labour, external debt burden and size of export sector were important in attracting FDI to African countries.

Even though research in Ghana (Barthel, Busse & Osei, 2008:17) found that investment incentives were important for companies with between 51 and 75% foreign investment in the country, even though UNCTAD (2008:4) notes that very little is still known about the effectiveness of incentives in attracting FDI. Lall (1997:21) further argues that serious investors are more concerned with the underlying long-term economic situation than with tax concessions that run out in a relatively short time. Anand (1997:206) also notes that,

in most cases, fiscal incentives were not much of an inducement for FDI as their benefits to the developer usually accrue only after the project has become profitable. For example, tax incentives can only be relevant when the foreign investor makes a profit otherwise during the whole period when the firm is waiting to break even it is unable to make use of this benefit.

However, Resmini (2007:219), Michalet (1997:17) and Pham (2004:11) argue that incentives and FDI promotion policies do not generally add much to alleviate the effect of fundamental deficiencies in the investment environment. Foreign investors place more emphasis on the simplicity and stability of the tax system than on generous tax rebates, especially where there is great political and institutional risk. Furthermore, UNCTAD (2007:35) notes that only few hotels consider government policies and incentives for FDI as an important factor that will influence their location decision.

Shelley (2004:33) argues that what most African governments call incentives are little more than getting the basics right to match what already happens elsewhere. Incentives would be something that draws the attention of investors. In addition, according to Helleiner (cited by Naude & Krugell, 2004:4) incentives may not necessarily attract FDI. Excessive use of incentives is not, however, sustainable because it draws resources away from where they are required most (UNCTAD, 2009: 107).

2.5.3 SOCIAL AND POLITICAL ENVIRONMENT

According to Yunis (2004:107), social and political stability are critical factors in attracting foreign investment in tourism, much more than for any other sector. Pollan (2006:10) also believes that local politics and culture have an impact on FDI flows into a country. Yunis (2004:107) argues that foreign investors in the tourism industry avoid politically risky countries as these would not guarantee certain hotel occupancy levels that would make the business economically viable.

United Nations (2008:110) further argues that the tourism industry is affected by violence and therefore a country that is susceptible to political instability would not attract FDI.

2.5.4 FAMILIARITY OF HOST COUNTRY

Farrel (2000:185) notes that familiarity and closeness such as trade and tourism links are essential factors when considering investment in a foreign country as these help in lowering transactional and information costs. This could also explain why most

developed countries prefer to invest in countries that are culturally similar to their home country (Barclay, 2000:53; Navaretti, *et al.*, 2004:134).

Furthermore, Dunning and Lundan (2008:48) note that Spanish and Italian firms tend to invest in Latin America more than other multinationals from the United Kingdom, France and the Netherlands also tend to invest in their former colonies in Asia and Africa.

2.5.5 RETURN ON INVESTMENT ON TOURISM PROJECTS

Tourism investment requires huge capital outlay for supra-structure construction (Yu, 1999:34; Anand, 1997:103; Snyman & Saayman, 2009:50; Sofield, 2003:163; Lickorish & Jenkins, 1997:226). According to Vella and Bechereal 1995 (quoted by Snyman & Saayman, 2009:50) the payback period for tourism investment projects is usually longer than in other economic sectors. As such, investors consider return on their investment as a key element in deciding whether or not they invest in a foreign country. This is achieved by conducting a feasibility study of market and revenue projections and operational and fixed costs (Moran, 1998:38; Madura & Fox, 2007:463 & Yunis, 2004:107; Michalet, 1997:15).

2.5.6 GOVERNMENT POLICIES

Countries compete for investment and, as such, they need to actively take the lead in promoting investment as the best investment destination (Pollan, 2006:3; De Gama, 2003:66 & Gautam, 2007:109). However, UNCTAD (2009:3) notes that whilst some countries such as Mauritius, Tanzania and Uganda have made an active effort to attract tourism FDI, others, like Kenya and Botswana have a more restrictive approach.

Pham (2004:123) maintains that host country governments need to develop long-term strategies for FDI utilisation which will provide a clear indication to foreign investors about government priorities on FDI in the short, medium and long term.

Hall and Jenkins (1995:29) note that, in many countries, policies and programmes of government are poorly integrated and, in most cases, policies at different levels contradict each other and are often implemented with little consultation. Tourism has faced challenges working with certain sectors such as immigration, customs and housing whose policies are usually not conducive to promoting tourism investment.

Behringer and Kiss (2004:73) note that the privatisation of hotels boosted the inflow of foreign direct investment to Hungary from the UK, Switzerland, France and Germany. Trevino and Mixon (2004:240) also note that privatisation also increased FDI to Peru

and Venezuela. In addition, De Gama (2003:66) also found that lack of further privatisation affected FDI inflows to South Africa.

Dunning and Lundan (2008:140) also note that several studies have shown that countries with good governance attract the most FDI and also that protection of property rights generally has a positive effect on FDI flows. Yu (1999:20) notes that inexpensive land is the main motivation for many hospitality companies to build hotels in developing countries. Baum (2006:98) also found that several researchers, both empirical and theoretical, confirmed the need for foreign multinationals' involvement in the host country's tourism destination development planning.

2.5.7 COMPETITIVENESS AND EXISTING TOURISM RELATED INFRASTRUCTURE

Snyman and Saayman (2009:52) found that the competitiveness of a destination is a major factor influencing the tourism FDI decision. They argue that competitiveness is determined by the state of public-private partnerships, incentive schemes, entrance to African markets, harbours and the growth of international travel.

In addition, Dwyer (2005:299) notes that a country without good shopping facilities and developed visitor attractions gives the perception that there is nothing to do and such a country is therefore unlikely to attract foreign investors. Bianchi (2002:290) also argues that countries that are too poor to provide basic tourism infrastructure may not even be considered by foreign investors. Furthermore, Saglam and Yalta (2011:80) argue that inadequate public infrastructure may be an obstacle to doing business hence affect FDI inflows to the host country. Rich (2003:130) also believes host countries have a role to play in developing world class infrastructure in order to attract FDI.

2.5.8 PERCEPTION OF POTENTIAL INVESTORS

Thomas (2005:178) believes that negative perceptions about Africa as an investment destination is one of the barriers of FDI flows to the continent. It is possible that South Africa, which accounts for 10 to 20% of total FDI in Africa, views Africa in a more informed way than overseas investors. Yunis (2004:107) further argues that any risk and perception of risk is likely to keep tourists away, hence the need for the host country to keep this to a minimum to attract investment in the tourism sector. Rich (2003:131) found that what happens in one country in Africa is often projected onto another creating a perception that if one country experiences political unrest the others are likely to experience the same. In his survey, De Gama (2003:66) also found that the political

situation in Zimbabwe, for example has not only had a detrimental effect on South Africa but also the region as a whole.

2.5.9 LEVEL AND STAGE OF TOURISM DEVELOPMENT AND TOURIST PRODUCT

In tourism, the nature of FDI tends to be influenced by the stage and level of tourism development and tourism-specific assets. (Dwyer, 2005:303 & UNCTAD, 2007:33). Yunis (2004:109) and Dwyer (2005:297) also note that foreign investors will be attracted to invest in countries with effective tourism marketing strategies and promotional programmes that are well funded.

In summary, the ability of a tourism destination to attract foreign investment is basically influenced by political constraints and incentives, the resources and conveniences offered, market characteristics, political stability and the ability of the destination to market and promote itself effectively (Gautam, 2007:108). Tourist arrivals are also considered a major inducement to tourism FDI (Yu, 1999:34 & Agarwal & Upadhyay, 2006:183).

Krugell (2004:52) further notes that if African countries are to successfully attract FDI, they will need to understand why MNEs undertake FDI and the characteristics of the host country that would attract FDI. Snyman and Saayman (2009:52,55) and Agarwal and Upadhyay (2006:183) found a strong correlation between sources of tourist arrivals and foreign direct investments.

Yunis (2004:105,107) argues that foreign tourism companies tend to attract tour operators and tourists. Social and political stability are key factors for attracting foreign investors in tourism, and perhaps much more so than in other economic sectors. Furthermore, McMillan and Morita (2003:45) and Hecklinger (2003:14) note that several studies confirm the importance of consistency and transparency in the regulatory climate in the host country.

A number of tourism multinationals have undertaken FDI decisions after considering the factors discussed in Section 2.5. Section 2.6 gives examples of major players in the tourist accommodation industry which are involved in tourism FDI decision making worldwide.

2.6 MAJOR PLAYERS IN THE GLOBAL HOTEL INDUSTRY

A number of hotel chains from the developed world dominate the global accommodation sector as indicated in Table. 2.4 below:

Table 2.4.: International Hotel Chains Global Penetration

Hotel Group	Number of Countries Present
Intercontinental	100
Accor	90
Best Western	83
Starwood	83
Hilton Group plc	77
Carlson	69
Marriot	68
Le Meridien	55
Choice	43
Club Mediterranee	40
Golden Tulip	40
Hyatt	38
Rezidor	38
Four Seasons	29
Sol Melia	28

Source: (Johnson & Vanetti, 2008)

A number of regions in the world have benefited from FDI from global hotel groups. Sections 2.7 and 2.7.1 discuss tourism FDI in the sub-Saharan Africa region and the reasons why multinationals invest in this part of Africa.

2.7 TOURISM FDI IN SUB-SAHARAN AFRICA

Cali, Ellis and Te Velde (2008:9) note that tourism is the biggest export service in many developing countries. Countries in sub-Saharan Africa are increasingly looking to FDI as a source of capital and a vehicle for economic change and therefore are undertaking major policy, legislative and institutional reforms to attract FDI (Mugabe, 2004:74). In addition, Wong and Baum (2006:97) maintain that the primary reason why developing

countries attract tourism FDI is to acquire technology and marketing skills which are scarce in their countries.

The tourism industry in sub-Saharan Africa is still developing as most of the countries do not have discernible tourism industries at all. Some countries' tourist industries are in transition, others growing rapidly as in South Africa, Botswana and Namibia or rapidly declining as in Zimbabwe. Others are still in their infancy and only attract business travellers or special interest travel markets such as in Ethiopia and Mali (Shackley, 2006:49). In most of these countries, hotel accommodation is only available in capital cities (Boniface & Cooper, 2005:314; Sharma, 2004:83).

2.7.1 REASONS MULTINATIONAL ENTERPRISES INVEST

Dunning and Lundan (2008:3) define a multinational enterprise as "an enterprise that engages in foreign direct investment (FDI) and owns or in some way controls value-added activities in more than one country."

According to Neuhaus (2006: 141) for one to locate the relevant determinants of FDI, one needs to know a firm's decision-making process to invest abroad. Farrel (2000:16) argues that the reasons to invest in a foreign country are related to the characteristics and advantages of the investor. Behram, Billet, Dunning and Caves (as quoted by Wong & Baum, 2006:98) believe that foreign tourism multinationals need to be involved in the host country tourism destination development.

According to Cornelissen (2005:23) multinational firms typically tend to direct themselves to international leisure sectors that yield lower volumes but higher returns. Farrel (2000:16) confirms that international investment involves the flow of capital from a country with low financial returns to countries with higher returns.

However, Cohen (2007:66) argues that all of the different kinds of FDI share a common origin: the decision by corporate executives that prospective financial rewards outweigh the projected costs of launching an overseas subsidiary. Djarova (2004:1) notes that FDI is the result of a decision making process that takes place in companies.

Nonetheless, Boniface and Cooper (2005:314) note that a number of positive factors will boost Africa's tourism investment and arrivals in future. These include interest in Africa's culture, the speed with which African countries are developing their tourism industries, the growing ethnic ties between Africa and the west through African diaspora, growing sports tourism, improved air access and the liberalisation of African economies.

Boniface and Cooper (2005:314) argue that foreign investors are reluctant to invest in the sub-Saharan African tourism industry because of political climates that may change at any time and where price inflation is not under control thereby not guaranteeing their return on investment. In addition, ethnic unrest has made the West believe that only a few African countries are actual states and this has led to western media discouraging tourism investment and tourists from travelling to the region.

According to Djarova (2004:1), FDI is the result of a decision-making process that takes place in companies as shown in Figure. 2.1.

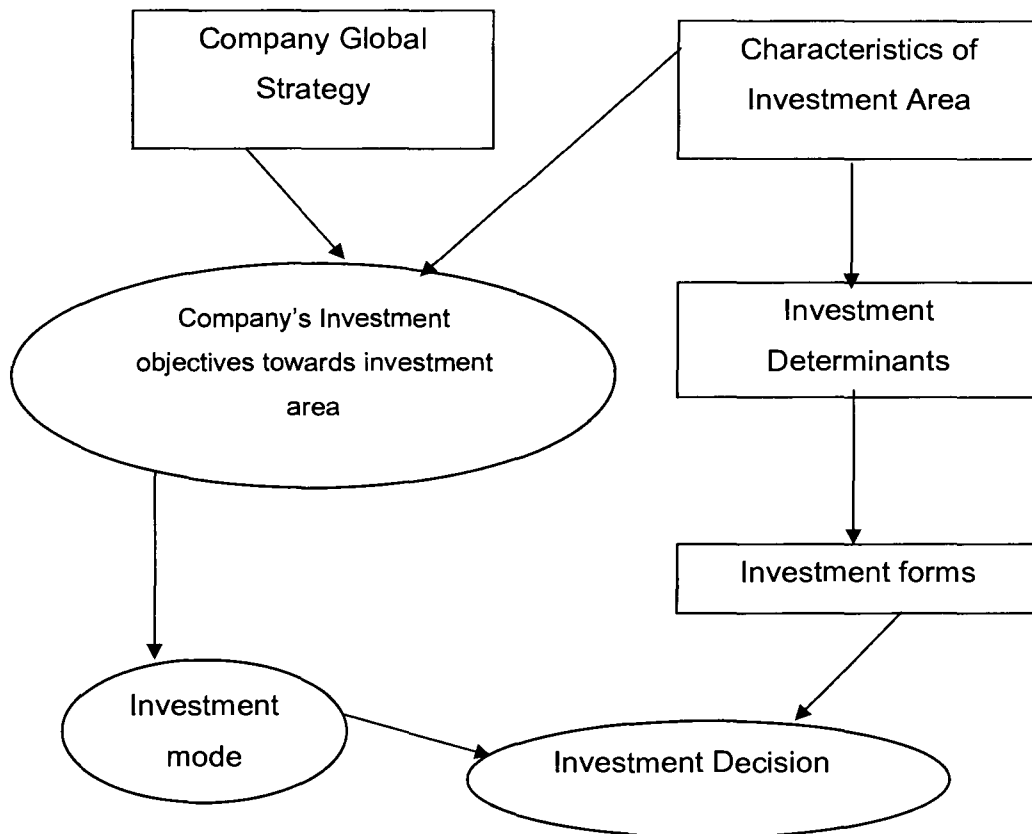


Figure. 2.1: Cross-border Investment Model

Source: (Djarova, 2004)

Figure 2.1 above shows the decision-making process multinational companies in the tourism industry go through to arrive at an investment decision. This is explained below:

➤ **Company global strategy**

Multinational companies invest abroad to derive maximum expected returns. The eclectic paradigm of international production largely explains why multinational firms invest in foreign countries. The theory asserts that the extent, pattern and growth of value adding activities undertaken by MNEs outside their home countries are dependent on the value of interactions between ownership advantages, location advantages and market internationalisation (Dwyer, Forsyth and Dwyer, 2010:513). In the tourism sector, Yu (2008:67) argues that there are three main reasons for global hotel expansion. These are sales expansion, geographical diversification and the need for brand recognition. International hotel companies are always looking for new opportunities either by responding to a new market niche or a market segment or entering an entirely new market. Pahalad and Hammand (quoted by Trevino & Mixon, 2004:241) note that MNEs are even able to invest in the world's poorest countries when they want to enhance their bottom line.

According to Dunning and Kundu (quoted by Weiermair and Peters, 2004:185) in 1995 they analysed ownership, location and internationalisation advantages of 34 multinational hotel enterprises in 13 countries. The most significant factors mentioned by hotel executives were:

➤ **Ownership-specific advantages**

1. Size of company and its ability to obtain economies of scale
2. The knowledge and taste requirements of home country clients
3. Trademark and brand image of the parent company
4. Investment in training of key personnel

➤ **Location-specific advantages**

1. Size, growth rate and stage of development of tourism in the host country
2. FDI policy
3. Availability and quality of hotel-related infrastructure (location of related assets complementing ownership-specific advantages of foreign hotels)
4. Political, social and economic advantages

➤ **Internationalisation advantages**

1. Quality control
2. Co-ordinating capabilities of parent firm

3. Host country's inward investment policy
4. Political and economic stability

➤ **Characteristics of investment area**

In spite of the high capital investment required for tourism projects, a number of researchers such as Gries (2005:51), Razafimahefa and Hamori (2007:64), Kiggundu (2002:158) and Naude and Krugell (2004:5) found that Africa is a very profitable investment destination even though the continent continues to attract low levels of FDI. Asiedu (2005:2) found that several studies show that factors that attract FDI to Africa are different to those that drive investment into other regions.

In addition, MNEs would invest in a country that is compatible with its strategy to diversify its operations for the purpose of reducing risks geographically (Dwyer, Forsyth and Dwyer, 2010:51).

Asiedu (2005:7) proposes a number of ways African countries can make themselves attractive to FDI and these are:

1. Small countries that lack natural resources can attract FDI by improving their institutions and policy environment
2. Being a member of a regional block can help in expanding market size making the country more attractive to FDI
3. Increase in trade with source markets can also help make the country attractive to FDI as there is a direct correlation between trade and FDI.

In addition Botha (2008:77) maintains that in order to attract FDI SADC countries should maintain average economic growth rates and also engage in privatisation programmes. On their part, Naude and Krugell (2004:3) note that host government policies are location-specific factors and these may influence TNCs decisions to undertake FDI.

➤ **Company's investment objectives**

Djarova (2004:11) argues the advantages of going global for MNEs include getting closer to foreign customers, an opportunity to acquire local knowledge, achieving higher economies of scale and scope effect and to achieve an efficient value chain beyond a single market or location.

According to Salisu (2004:178), among the principal factors that influence the FDI decision are the objectives of the prospective investor which include the desire to

capture expanding markets. Michalet (1997:31) notes that multinationals do not invest in all countries in the world but only do so in countries where they could be able to entrench their competitive advantage both globally and regionally. Djarova (2004:11) further notes that multinational companies expand to achieve higher returns on equity, minimise risks using their worldwide presence and improve their competitive positions.

However, Cunill (2006:61) notes that some hotel MNEs may still invest during a recession as they regard this as an occasion that can create opportunities to acquire properties in difficult times as they have still to maintain existing clients and win new ones.

➤ **Investment determinants**

Singh (2008:153) argues that there are two sets of factors that jointly affect the level of direct investment. These are non-policy factors such as market size and potential, together with, among others, socio-geographical proximity; and policy factors which include market openness and infrastructure.

In general, several studies (Razafimahefa & Hamori, 2007:62, Resmini, 2007:214; Balasubramanyam, 2002:188) have shown that market size of the host country is the principal determinant of FDI. In addition, Lemi and Asefa (2003:47) found that economic factors such as labour, external debt burden and size of export sector were important in attracting FDI to African countries.

Yunis (2004:107) found that social and political stability are critical factors in attracting foreign investment in tourism, much more so than for any other sector. Pollan (2006:10) also believes that local politics and culture have an impact in FDI flows into a country. On his part, Farrel (2000:185) notes that familiarity and closeness such as trade and tourism links is an essential factor when considering investment in a foreign country as it helps in lowering transactional and information costs. This could also explain why most developed countries prefer to invest in countries that are culturally similar to their home country (Barclay, 2000:53 & Navaretti, 2004:134).

For developing countries, the most common conditions that attract FDI in the tourism industry are social and political stability. The reasons that MNEs invest are sensitive to any forms of insecurity.

Gautam (2007:108) sums it up by observing that the ability of a tourism destination to attract foreign investment is basically influenced by political constraints and incentives, the resources and conveniences offered, market characteristics, political stability and the ability of the destination to market and promote itself effectively.

➤ **Investment modes**

There are five main modes of tourism FDI. These are wholly owned subsidiaries, joint ventures, management contracts, franchising and hotel consortia (Sinclair & Stabler, 2002:136; Colantonio & Potter, 2006:33; Pham, 2004:5; Michalet, 1997:6; Zhang *et al.*, 2005:148; Yu, 2008:71). Handszuh (2008:34) notes that FDI in the tourism sector is currently being replaced by non-equity forms of FDI such as management contracts or franchises making the sector the least globalised in terms of direct investment.

➤ **Investment forms**

According to Debroy (2004:78) most global FDI inflows are through mergers, takeovers and acquisitions. De Gama (2003:67) also found that in South Africa most of FDI is in form of mergers and acquisitions. Dale and Oliver (2005:38) note that takeovers happen regularly in the tourism sector.

Another form of FDI to be considered by prospective investors is public-private partnership, which is cooperation between a private company and central government.

➤ **Investment decision**

According to Hood and Truijens (quoted by Welch, Benito & Petersen, 2007:322), the FDI decision process takes a long time to unfold and therefore usually has an impact on the form of FDI chosen. However, other FDI decisions such as green fields are straightforward and require less time (Welch *et al.*, 2007:322).

2.8 SUMMARY

The Chapter discusses general FDI theories and factors that influence the FDI decision in general and those that are relevant to the tourism industry and the accommodation sector in particular. It also examines the various theories of FDI and discusses their strengths and weaknesses. In addition, the chapter looks at the global tourism sector, major global players in the hotel industry, reasons that enterprises invest in the tourism

industry and how these sectors have unique characteristics compared to those of the other economic sectors.

The chapter also discusses factors that influence the FDI decision such as market size, economic and fiscal stability, social and political economy, familiarisation to host country, return on investment in tourism projects, government policies, competitiveness and existing tourism-related infrastructure and the perceptions of potential investors.

Several lessons can be drawn from the above discussion:

- Firstly, the definition of FDI has several grey areas. Much as a minimum of 10% equity stock is said to give an investor control, in reality it does not, since control can only be exercised with a majority shareholding.
- Secondly, factors that influence the FDI decision in the tourism industry include market size and growth, economic and political stability, tourism related infrastructure, government policy.
- Thirdly, factors that influence FDI have evolved from theories that attempted to explain reasons for FDI which have been developed since the 1960s.
- Lastly, it is important for countries seeking to attract FDI to understand the FDI decision-making process as it not only uncovers elements that MNEs consider critical when considering investing in a host country, but it may also have an impact on the form of investment to be chosen.
- When multinationals want to invest in a country, they also look at the host country's investment climate to see whether it will help them in achieving their FDI objectives.
- When multinational companies want to invest in sub-Saharan Africa they ensure that countries not only undertake full policy reforms but also maintain their economic growth rates. They also tend to prefer non equity modes of investment such as franchises and management contracts to Greenfield investments.

Chapter 3 will discuss the Malawi general investment climate.

CHAPTER 3

MALAWI: GENERAL INVESTMENT CLIMATE

3.1 INTRODUCTION

Chapter 3 will examine the Malawi investment climate and the measures the country has taken to attract FDI into its tourism industry. It will also discuss Malawi's current investment climate based on policy reviews and relevant FDI literature. Several Malawi government policies that affect FDI, such as the legal framework, investment policies, investment incentives, consultancy reports and policy reviews will be analysed and discussed in terms of existing FDI theories.

In addition, relevant Malawi government documents which outline issues on investment, tourism and the Malawi economy will be used as source material for the study.

3.2 COUNTRY INFORMATION

Malawi is a small landlocked country in southern central Africa covering a total area of 11.8 million hectares (118 440 square kilometres), 9.4 million hectares of which is land. One-fifth of the surface is covered by Lake Malawi (MIPA (Malawi Investment Promotion Agency), 2009:1).

The country is located in south-eastern Africa and is bordered by Tanzania to the north, Zambia to the west and Mozambique to the east and south. The country's landscape is dominated by Lake Malawi, which accounts for almost a fifth of the country's total area and is Africa's third largest lake. It is also the country's primary tourist attraction. (MIPA, 2009:10).

Malawi is one of the most peaceful countries in Africa, has friendly and welcoming people, five national parks and four wildlife reserves, varied landscape and two world heritage sites (Malawi Government, 2010:8; World Bank, 2010b:17)



Figure. 3.1 Map of Malawi (Source: Google Maps, 2010)

Malawi's location in sub-Saharan Africa makes it share some of the common FDI challenges and opportunities found in this region. Section 3.3 will discuss the state of Malawi's economy.

3.3 CURRENT STATE OF THE MALAWI ECONOMY

According to the OECD, ADB (Africa Development Bank) and UNECA (United Nations Economic Commission for Africa) (2009:393), Malawi is one of the world's most densely populated and least developed countries, but its recent economic performance has been

impressive. The ADB and OECD (2009:180) note that Malawi has a United Nations (UN) Human Development Index (HDI) of 0.493 ranking the country at 160 out of 182 countries in 2009. In 2008, Malawi's population density was 139 per square kilometre which is considered high. However, they acknowledge that, in 2009, 40% of Malawians lived in poverty compared to 52% in 2005.

The country has one of the fastest growing economies in the world which has seen the country's GDP growing by 9.7% in real terms in 2008 compared to growth rates of 8.6% in 2007. This growth was driven by rapid expansion of the agriculture, manufacturing, financial and telecommunication sectors. The annual inflation rate was steady at 8.7% in 2008, up from 8.0% in 2007 (Reserve Bank of Malawi, 2008:23).

Its economy is dominated by agriculture, which accounts for 85% of export revenues, contributes 32% to GDP and employs 80% of the adult population. The manufacturing sector, which is mainly agro-based, is very small accounting for only 9.2% of GDP in 2007. The service sector, dominated by the financial sector, registered successive growth rates of 13.48% in 2007 and 14.5% in 2006, which were the highest among all other economic sectors in Malawi (MIPA, 2009:14). The Tourism sector grew by 7.4% in 2008 (Malawi Ministry of Tourism, Wildlife and Culture, 2008:7) and is expected to account for 8% of GDP in 2011 (WTTC, 2011:10).

Malawi specifically encourages FDI flows into its hotel sector (Malawi Government, 2006:3). The ADB (2009:401) further notes that the country is now making real progress in terms of laying the foundations for faster economic growth as interest rates have been reduced and the amount of credit extended to the private sector has increased.

In addition, the current Malawi government has continued to put the maintenance of macroeconomic stability at the centre of its economic policy and continues to reduce fiscal deficit which was affecting economic growth (ADB, 2009:403-404)

Though there has been remarkable progress at the macro-economic level, Kazembe and Namizinga (2007:13,20,22) note that Malawi is still one of the ten poorest countries in the world with an economy dominated by production, processing and distribution of agricultural products such as tobacco, tea, sugar, cotton, coffee, cotton and maize. The country has a GDP per capita of only US\$200 per annum and the growth rate of real per capita income is very low. The market is very small with limited local purchasing power. In 2009, 40% of the population lived below the poverty line. Ironically, they also note that the country is sceptical of regional integration as it feels the dominant countries such as

South Africa would attract much of the FDI at the expense of smaller countries such as Malawi.

The economy of a country provides a backdrop for industries within the economy. Section 3.4 will discuss the state of Malawi's tourism industry.

3.4 STATE OF THE MALAWI TOURISM ECONOMY

Malawi has unique and unspoilt natural attractions, authentic culture and rare historical archaeological sites, beautiful beaches by Lake Malawi and a wide variety of fauna and flora (Nsiku & Kiratu, 2009:20). According to RETOSA (2010:44), Malawi was rated third highest in a survey of international tour operators as having quality and variety of natural tourist attractions. The country can therefore emulate the example of Kenya, which managed to become a popular world tourist destination by developing a nature-based tourist product centred around abundant wildlife in protected areas, scenery, beaches and coral reefs (Koch, Massyn & Spenceley, 2002:253).

However, (2006:18) notes that Malawi has a relatively low tourism asset base which is made up of natural, cultural, heritage and man-made existing and potential attractions. Tourism facilities are also very limited.

Tourism in Malawi is still in its infancy but offers great potential for development of the country both as a foreign exchange earner and provider of employment (Malawi Government, 2006:3).

The Malawi Ministry of Tourism, which is responsible for the development, regulation and promotion of the tourism industry, was formally set up in 1995. Before that, tourism in Malawi was a mere government department in the Ministry of Commerce & Industry. Soon after government recognised eco-tourism as its main tourist product, the Department of Parks & Wildlife was added to the Ministry in 1997. (Malawi Government, 2006:4; Tourism Intelligence International, 2008:11).

Overall, Malawi's total tourist receipts increased from US\$43 million in 2006 to US\$48 million in 2007, representing an 11.6% increase. Tourism contribution to GDP grew from 1.3% in 2005 to 4.7% in 2007. RETOSA (2006:11) notes that countries whose tourism sector contributes more to GDP are more likely to view tourism as an important sector and therefore give the industry priority in its policies and strategies. On tourism as a foreign exchange earner, Nsiku and Kiratu (2009:25) note that only a few hotels and operators in the tourism industry make foreign currency available to the formal market. This is so for two reasons. Firstly, only bigger operators are registered to transact in

foreign currency by the Reserve Bank of Malawi and, secondly, the smaller operators, which are in majority, are not obliged to declare foreign currency to the Reserve Bank as they are not authorised to deal in foreign currency in the first place.

According to Malawi National Statistical Office (2008:1-3), international tourist arrivals to Malawi grew at an average annual rate of 12.4% from 163 000 in 1994 to 734 000 in 2007. In 2006, Malawi’s tourist arrivals grew at an annual rate of 8.1%, more than the world average of 4.4%, while the rest of Africa experienced a slowdown in tourist arrivals. However, Tourism Intelligence International (2008:20) notes that, even though Malawi’s tourist arrivals figures record annual increases, the number of holidaymakers has not increased significantly in the past few years.

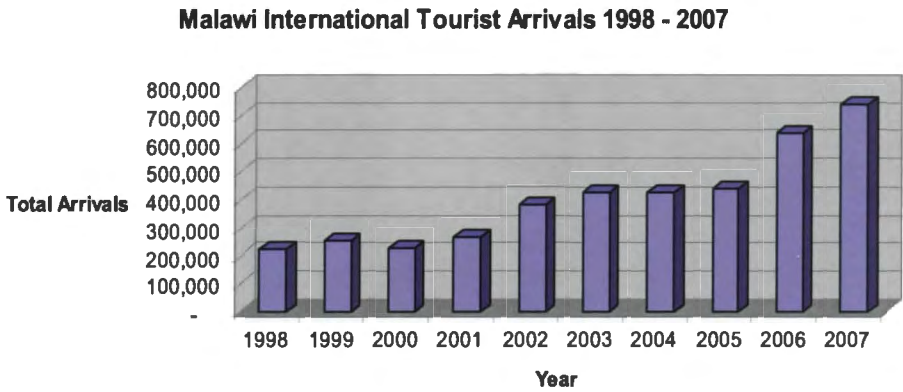


Figure 3.2: Malawi International Tourist Arrivals 1998 - 2007
 Source: (Malawi Department of Tourism, 2009)

Figure 3.2 above gives a graphical presentation of international tourist arrivals into Malawi between 1998 and 2007. The graph shows that international arrivals into Malawi have been rising steadily. In a period of 10 years, the arrivals increased by 350% from 200 000 in 1998 to 700 000 in 2007.

In terms of accommodation units in the country, Tourism Intelligence International (2008:24) notes that there are approximately 478 licensed accommodation units in Malawi, 26% of which are in Lilongwe, the capital city, and 19% in Blantyre, the commercial capital of Malawi. Rest Houses, which are very basic accommodation units, represent some 55% of the total number of accommodation units; Lodges represent 32% and Hotels represent 5.4% of the total number. Details are given in Table 3.1 below:

Table 3.1: Number of Licensed Accommodation Units by Zone, 2005

Zone	Apartments	Camps	Cottages	Guest Houses	Hotels	Lodges	Rest Houses	Total
Blantyre	2			6	8	33	42	91
Lilongwe	1	2	1	5	7	38	70	124
Mzuzu		1		2	4	13	20	40
Nkhota-Kota						8	14	22
Northern Lakeshore		3	1	5		29	32	70
Salima		3			3	8	17	31
Southern Lakeshore		1	1		2	23	45	72
Zomba			1		2	3	22	28
Total	3	10	4	18	26	155	262	478

Source: (Malawi Ministry of Tourism, 2008)

Table 3.1 above shows a breakdown of accommodation units in Malawi based on the type of accommodation and geographical location. In 2004, the country had a total of 478 licenced units, the majority of which were small units owned by locals and foreign residents.

Currently, Malawi has one internationally branded hotel group, Protea Hotels, which is owned by the National Insurance Company of Malawi (NICO) and operates in the country on a management contract basis and not as an equity investor (Tourism Intelligence International, 2008:53). Nakagawa, Bahl, Demisse, Ishizuka, Miranda, Ramirez and Sung (2009:57) note that the Protea Hotel in Malawi has generated positive returns. However, in spite of the success of Protea Hotels, the country's efforts

to attract regional and internationally renowned hotel brands such as Southern Sun, Holiday Inn and the Legacy Hotel group have not been successful. Nsiku and Kiratu (2009:5) note that most of the investments in the Malawi tourist accommodation industry are by government, most of which were sold to the private sector and the Malawi government still has a significant investment in most major city centres and resort areas.

In addition, the country is faced by numerous challenges which include inadequate infrastructure which makes it difficult to access tourist areas situated in remote areas during the rainy season, a lack of tourism sector-specific investment incentives, inadequate awareness of the importance of tourism by communities and inadequate regulation of the sector (Malawi Government, 2008:4-5).

The country is currently experiencing inadequate tourism investment in the hotel sector which has resulted in limited international hotel standard accommodation along Lake Malawi and in urban areas. High demand for hotel accommodation has led to high hotel charges (Malawi Government, 2008:4). Nsiku and Kiratu (2009:5,22) note that Malawi lacks a critical mass of accommodation for leisure and recreational visitors. The tourism sector is characterised by small and medium sized hotel and resort developments, most of which are owned by foreign nationals such as Chinese, Koreans and South African nationals (World Bank, 2010b:37).

However, Shelley (2004:221) indicated that Malawi offers huge opportunities for tourism development but, due to its distance from major source markets, the country can offer little compared to other countries that have similar product endowments and are also closer to main markets. According to Tourism Intelligence International (2008:48) Malawi does not have direct flights to international overseas markets and all passengers have to pass through regional airport hubs.

Generic tourism promotion is undertaken by the Department of Tourism. The comparatively small marketing budget is complemented by private sector marketing initiatives (Tourism Intelligence International, 2008:53). Nakagawa *et al.* (2009:58) note that the annual Malawi Tourism budget is only US\$300 000, which is not enough to enable the country to market its tourist product effectively to its markets. The country's major tourist source markets include the United Kingdom, South Africa, Germany, the Netherlands, the USA and Zambia (Tourism Intelligence International, 2008:32).

Nsiku and Kiratu (2009:21) observe that, while there may be some relationship between sources of tourism FDI and tourists in Malawi, there is also a strong indication that international relations or co-operation play an important role. For example, Korean

companies poured more than \$30 billion into China since the two countries established diplomatic relations in 1992 and also increased FDI into former eastern European countries after establishing diplomatic ties (Chase, Pollpeter & Mulvenon, 2004:44 & Cherry, 2004:81).

In terms of tourism promotional activities, Tourism Intelligence International (2008:93) found that 42% of the Malawi private sector rated the Indaba as the best tourism fair in the world, followed by the World Travel Market, which is held in London, at 38.6% and, lastly, the ITB fair in Berlin was favoured by only 20.4% of the respondents. The Indaba Tourism fair is Africa's biggest tourism fair which showcases Africa's top attractions (South African Tourism, 2010). Malawi has participated at the Indaba Tourism fair almost every year since its inception in 1979.

According to South African Tourism (2010), the fair attracted 2 656 exhibitors from 119 countries throughout the world and 559 media organisations. It also attracted 4 437 international buyers, making it one of the largest marketing events in Africa and one of the top three 'must visit' events of its kind on the global events calendar.

On government expenditure on tourism, Blanke, Chiesa and Herera (2009:421) notes that the percentage of the Malawi Department of Tourism promotional and development budget to total government expenditure is 1.3% compared to Mauritius (16.1%), Botswana (6.1%), Uganda (2.3%) and South Africa (0.5%). Malawi has one of the lowest tourism promotional budgets amongst the selected countries. South Africa may seem to have a small budget share, that is 0.5% of total government spending, but it has a huge national budget which makes its tourism and travel expenditure share one of the biggest in sub-Saharan Africa in real terms.

In July 2009, the Malawi government introduced a 1% market levy which is charged on all bills from registered tourism units in Malawi (Malawi Department of Tourism, 2009:38). The tourism levy, which became operational in August 2010, is expected to complement Malawi's tourism promotional budget. However, there is a likelihood that the levy will not increase the promotional budget and may be used as an excuse to cut the normal government funding for tourism promotion.

Government promotes tourism in collaboration with the private sector which is represented by the Malawi Tourism Association (MTA), a non-profit organisation registered under the Trustees Act. MTA was formed in 1998 to represent the interests of trade sub-sectors including the Hotels and Catering Trades Association, the Airline Association, the Car Hire Association and the Travel Agents and Tour Operators

Association. It is supported by the membership fee income, which is not sufficient for its needs. Its aims are to provide a platform for operators of all tourism-related facilities and services and to provide the government with representative input on all matters related to policy development (Tourism Intelligence International, 2008:12).

According to the Malawi Government (2006:33), tourism has been identified as one of the four key sectors that can contribute towards economic growth. To facilitate private sector investment in tourism, the Malawi government aims to prioritise the construction and rehabilitation of roads to key tourist destinations as well as landing strips at these destinations.

The Malawi tourism economy is one of the factors multinationals will consider before undertaking FDI. Section 3.5 discusses the state of foreign FDI and the investment policy environment in Malawi.

3.5 FDI IN MALAWI

According to Kazembe and Namizinga (2007:6) and Nakagawa, Bahl, Demisse, Ishizuka, Miranda, Ramirez and Sung (2009:9), the main destination for FDI in Malawi is the agricultural industry, with the tobacco and sugar sectors being the main beneficiaries. Other major sectors of investment include telecommunications, manufacturing, tourism, and mining. The bulk of FDI inflows come from the UK, the USA, and South Africa.

Shelley (2004:222) notes that Malawi is not able to attract large scale foreign investment due to its small economy. However, according to the UNCTAD (2009:248) Malawi was still able to receive a total of US\$55 million of FDI in 2007. In 2006, Malawi had 32 foreign affiliate companies (ADB, 2009:222).

Between 1999 and 2007, the Malawi Investment Promotion Agency facilitated a total of US\$439.34 million in investment pledges, which translates to US\$55 million of FDI per year (MIPA, 2009:17). UNCTAD (2009) estimates that Malawi had FDI stock of US\$590 million in 2007, compared to US\$627 million in 2008. Nsiku and Kiratu (2009:21) also note that the main sources of tourism FDI in Malawi include Germany, the United Kingdom, China and South Africa.

3.6 MAIN MALAWI FDI POLICIES

Malawi has developed a number of policies to improve the country's investment climate. According to Teece, Mudambi, Dunning and Narula (quoted by Lemi and Asefa,

2003:38), country characteristics are the main focus for foreign investors investing in developing countries. Naude and Krugell (2003:3) also found that location-specific factors, which shape the country's investment climate, have an impact on the profitability of FDI at firm or industry level. Pham (2004:9) also argues that many studies found that government policies also play an important role in maximising benefits from FDI.

Farrel (2000:19) maintains that the assumption for creating a favourable investment climate for foreign investors is to create an advantage for foreign investors over local competition to justify higher operational costs in their host country. The country's major investment policies include the following:

3.6.1 TOURISM DEVELOPMENT POLICY

According to Malawi Government (2010:4) the principal objective of the Malawi National Tourism policy is to optimise the contribution of tourism to national income, employment and foreign exchange earnings. This will be achieved through the creation of an enabling environment for private sector and community involvement and development.

The Malawi Government (2006:20) notes that Malawi's long-term goal is to increase the contribution of tourism to GDP from 1.8% in 2005 to 8% in 2011.

However, Nsiku and Kiratu (2009:31,282) note that Malawi's national tourism legislation and policies have largely failed in their capacity to measure tourism performance and also in their enforceability. They also observe that Malawi may not have given enough consideration to the type of tourism the country wanted to develop, the extent to which its declared aims outlined in the tourism policy were realistic, and what needed to be done to achieve the set aims.

According to Smith and World Bank (2004:22) firms that intend to invest in an economy consider investment opportunities, government policies and behaviour as a package. Baldi (2002:186) also observes that traditional policies for attracting FDI only play a complementary role and do not, on their own, attract FDI. Furthermore, the United Nations, quoted by Naude and Krugell (2003:3), notes that policies of the host country may influence profitability and a foreign company's decision to invest. However, Allington and McCombie (2007:257) argue that developing countries tend to concentrate on policy initiatives that attract FDI but do not sufficiently invest in policies that will enable the country to benefit from FDI.

Nonetheless, having good investment policies and laws is not enough as more than 90% of companies in developing economies have reported gaps between formal policy and

what happens in practice (Smith & World Bank, 2004:8). Tourism Intelligence International (2008:15) further observes that Malawi was unable to implement its strategic plans due to lack of resources and also the fact that most of the recommendations made in the plan fall outside the mandate of the ministry responsible for tourism.

3.6.1.1 TOURISM POLICY OBJECTIVES

One of the key policy objectives of the National Tourism Policy is to ensure systematic and planned development of the Malawi tourist product and to promote and facilitate both local and foreign investment in tourism facilities of international standard (Malawi Government, 2008:8-9).

According to Malawi Government (2008:9-11) Malawi plans, among other things, to facilitate tourism development and lobby for public sector investment programmes, contain crime and promote safety for tourists and visitors, encourage and facilitate the availability of skilled labour in the tourism sector, encourage private-public sector partnership in tourism development and facilitate access to finance and investor processing.

3.6.1.2 TOURISM DEVELOPMENT PLAN

In its tourism development plans, the Malawi government intends to establish clear procedures, guidelines and regulations to ensure planned and sustainable tourism expansion. In addition, government will also encourage private sector participation in tourism development and ensure provision and proper maintenance of tourism related infrastructure to improve access to all tourist areas (Malawi Government, 2008:13).

In developing its tourism, the government will promote policies that will stimulate tourism growth, acknowledge that tourism is private sector driven and should be supportive to community involvement, gender sensitive, environmentally sustainable and encourage good labour practices (Malawi Government, 2008:8).

In spite of this, Tourism Intelligence International (2008:16,22,30,51) observes that those responsible for formulating tourism policy do not have legal powers to do so and therefore the ministry responsible for tourism does not have legal support or the right to plan, designate tourism development zones, review proposed investments and promote or monitor the sector. It also notes that, in Malawi's Tourism Development Strategic Plan 2005 - 2008, there is an overemphasis on the development of eco-lodges at the

expense of other sectors. The ministry responsible for tourism has also set out modest targets and there was no attempt to link tourism infrastructure development with government's Public Sector Investment Programme (PSIP). Tourism is only accorded 2% of total PSIP investment for the 2007/8 to 2011/12 period.

Furthermore, Malawi has neglected to develop domestic tourism and, as such, very few locals patronise tourism facilities. Allington and McCombie (2007:253) note that the rise of tourism consumption from the middle class emerging in some developing countries plays a key role in attracting investment from hotel chains.

3.6.2 NATIONAL INVESTMENT POLICY

According to Malawi Government (2010:8), the goal of the National Investment Policy is to develop an enabling environment in which investors can easily invest to modernise, improve and expand the productive capacity of the Malawi economy and achieve expanded investment and trade.

3.6.2.1 INVESTMENT POLICY OBJECTIVES

The broad objectives of the Investment Policy are to provide a clear and transparent framework to facilitate private investment, optimise the impact of the private investment on economic growth, modernise and diversify the economy through investment and trade and promote balanced development within the country (Malawi Government, 2010:8).

3.6.2.2 INVESTMENT PROTECTION POLICY

Malawi's legal system is founded on English Common Law and the Constitution of the Republic of Malawi enshrines basic freedom to invest, freedom to own property and guarantees fair compensation in the event of expropriation (MIPA, 2009:47).

In Malawi, aggrieved private investors have the liberty to take their cases to internationally accepted forums for mediation including the International Centre for Settlement of Investment Disputes (ICSID). Malawi is also a signatory to the convention establishing the Multilateral Investment Guarantee Agency (MIGA) and the settlement of investment disputes (MIPA, 2009:48).

It is worth mentioning that although many foreign investors have access to legal and international arbitration institutions, in practice it takes a long time to get redress due to

bureaucracy. Red tape makes it difficult for foreign investors to actually rely on any investment protection.

3.6.2.3 INVESTMENT INCENTIVE SCHEME

According to MIPA (2009,55), FDI incentives available in Malawi include the following:

- 100% investment allowance on qualifying expenditure for new buildings and machinery
- 50% allowance for qualifying training costs
- Allowance for manufacturing companies to deduct all operating expenses incurred up to 25 months prior to the start of operations
- Zero duty on raw materials used in manufacturing
- Tax losses carry forward for up to seven years, enabling companies to take advantage of allowances
- 15% additional allowance for investment in designated areas of the country
- Duty-free importation of buses with a seating capacity of 45 persons or more (including the driver)
- Duty-free direct importation of building materials for factories and warehouses
- Duty-free direct importation of goods used in the tourism industry, which includes building materials, catering and related equipment, and water sports equipment
- Free repatriation of dividends, profits, and royalties

Burns and Holden (1995:198) note that the range of incentives offered by a government reflects two things: the attitude of the government towards tourism as an important industry and the level of need for government to encourage inward investment.

According to Malawi Government (2008:4) Malawi lacks tourism sector investment incentives and this is negatively affecting the development of the tourism industry. Nakagawa *et al.*, (2009:57) and Tourism Intelligence International (2008:31) note that the Ministry of Finance in conjunction with the Malawi Department of Tourism and Malawi Tourism Association annually identify incentives to attract investment into the tourism sector.

However, this arrangement has three major faults. Firstly, the participation of the Malawi Tourism Association introduces some bias into the process as it seeks to protect its members from competition from potential foreign investors. Thus it is likely to propose unattractive incentives to put off competition. This is likely to get support from the Ministry of Finance which is under pressure to maximise revenue collection from a limited tax base. Secondly, the process introduces unfairness to potential investors especially where an investor who is delayed by bureaucracy sees the incentives they

were offered in a previous financial year lapsing or where a competitor who invests in a subsequent year accesses better incentives than the former. The OECD (2006:12) argues that transparent information on how government implements and changes rules dealing with investment is a critical determinant of the investment decision. Lastly, the process brings in uncertainty as no one knows what incentives will be introduced in the subsequent year. The OECD (2006:12) also maintains that countries should strive for a stable and predictable investment climate if they are to attract investment.

Furthermore, Kazembe and Namizinga (2007:18) note that while Malawi has put in place an incentive scheme to reduce the burden of tax, it is complex to administer and lacks transparency. However, Wei & Balasubramanyam (2004:3) and McMillan & Morita (2003:45) note that most potential investors attach a lot of importance to consistency, stability and transparency in the regulatory climate of the host country. In addition, Nsiku and Kiratu (2009:28) found that the process of accessing incentives in Malawi is very expensive and not worth the benefits gained. The process is long and complex and the conduct of government agencies in administering the investment incentives does not match investor expectations. According to Pham (2004:123) and Emery (quoted by Te Velde, 2003:175) administrative procedures can become a significant barrier to FDI, especially in developing countries. The OECD (2006:37) notes that long delays and costly procedures to establish new business entities is one of the obstacles to investment.

Madura and Fox (2007:475) note that the extent to which a government is prepared to offer incentives depends on the extent to which the country will benefit from the investing company. However, Baldi (2002:182) cautions on investment incentives as he believes they have a negative effect on the economy. Tourism Intelligence International (2008:31) found that the Malawi investment code is neither attractive nor competitive. Ironically, even though Malawi considers incentives as one of the main ways to attract investment into the country, Nsiku and Kiratu (2009:16) found that 80% of the foreign investors they interviewed in Malawi would still have invested in the country even if there were no investment incentives. This is in agreement with what most researchers found - that investment incentives on their own do not necessarily attract investment (Resmini, 2007:219; Michalet, 1997:17; Pham, 2004:11; Wei & Balasubramanyam, 2004:2).

Yunis (2004:106) notes that recent growth in tourism FDI in many rapidly developing economies has resulted from the creation of incentive schemes together with a mild

regulatory framework including laws, decrees, regulations and standards supported by the endorsement of international treaties and agreements.

Boniface and Cooper (2005:314) argue that investors are reluctant to invest in tourism in countries where the political climate is changeable or return on their investment is not guaranteed.

3.6.3 FOREIGN EXCHANGE REGULATION POLICY

MIPA (2009:26) notes that exporters are allowed to operate foreign currency denominated accounts in Authorised Dealer Banks and the repatriation of capital is unlimited.

According to Malawi Government (2010:11), foreign investors may introduce investment capital by way of cash, capital equipment (plant and machinery), technology and debt/equity swap. However, in accordance with anti money laundering legislation, importation of hard currency cash for investment purposes is limited to US\$5 000 or the equivalent thereof in any other convertible currency. Foreign investors are required to register foreign capital with the exchange control authorities. Accordingly, remittances abroad of income deriving from the investment, and capital in the case of disinvestment do not require exchange control approval provided that the initial capital came from external sources and was duly registered by the exchange control authorities. The Reserve Bank of Malawi prescribes and reviews foreign capital registration procedures from time to time.

Investors are permitted full remittance of dividends, investment capital on repatriation, interest and principal payments for approved international loans, and approved management fees, licences, royalties and similar obligations (MIPA, 2009:48).

3.6.4 PRIVATISATION POLICY

Malawi initiated a privatisation programme to accelerate economic growth through transfer of public enterprises into private ownership or management through management contracts, concessions or outright acquisition of a whole company. All privatisation of public enterprises goes through a bidding process. Successful bids evaluated by the Privatisation Commission are submitted to the minister responsible for Industry for approval to conclude the final sale or investment agreement (MIPA, 2009:44).

Goldstein (2004:23) notes that the Malawi privatisation programme favours Malawians to the exclusion of foreign investors. Most Malawians who have been given concessions or

bought privatised government hotels do not have the managerial capacity or funding to run the units. They have either ended up winding up operations or with the operations being of low standard. However, in Kenya, where locals (usually powerful politicians and businessmen) were successful when they were encouraged to enter into joint ventures with foreign investors to get much needed capital, both parties had benefited as these locals were able to cut through red tape and also shield their investment against expropriation (Honey, 2008:298).

Lall and Stewart (1996:199) noted that Malawi achieved minimal privatisation because of severe political and economic obstacles. According to the ADB (2009:400), the country has an ongoing privatisation programme but, since the sale of the Malawi Telecommunication company in 2006, very few attractive companies remain in state hands.

Kazembe and Namizinga (2007:27) note that Malawi privatised 66 state owned companies, 44 of which went into the hands of Malawian entrepreneurs. However, Malawi's biggest hotel chain, Sunbird Hotels and Resorts, which owns seven hotels and resorts nationwide (World Bank, 2010b:36). The hotel group remains in government hands with government owning 77% of the group's equity shares. It is important to note that successful tourist destinations such as Kenya and South Africa have substantial foreign participation through partial or complete ownership of facilities in the hotel sector. The Malawi government, clinging to ownership of the largest hotel group in the country, could also be one of the major deterrents of FDI into the country, especially when government encourages its employees to stay at hotels in the group to the exclusion of other hotels.

3.6.5 TAXATION POLICY

Malawi has double taxation agreements with a number of countries. These are: Denmark, France, Kenya, the Netherlands, Norway, South Africa, Sweden, Switzerland, and the United Kingdom (MIPA, 2009:17).

According to MIPA (2009:28), corporate tax in Malawi is 30% and 35% for companies with headquarters outside Malawi. However, Kazembe and Namizinga (2007:7) observe that high taxation is one of the biggest barriers to attracting foreign investment into Malawi. The tax rate in Malawi is considered to be high by most foreign investors.

Te Velde (2003:175) notes that tax incentives influence potential investors' decision making once all the fundamentals are sufficient. However, Anand (1997:206) notes that

tax incentives will usually only benefit a potential investor when the investment is profitable and when they are no longer in need of assistance. Naude and Krugell (2004:169) and Balasubramanyam (2002:188) argue that fiscal and monetary incentives cannot be an alternative to low and stable interest rates. Michalet (1997:17) found that a few firms cited the existence of host government incentives in the form of tax holidays or subsidies, as factors that can enhance a country's attractiveness.

3.6.6 LABOUR AND EXPATRIATE EMPLOYMENT POLICY

According to Malawi Government (2010:5), skilled labour in the Malawi tourism sector is lacking to the degree that many investors rely on expatriate labour. However, to address this challenge, the Malawi government has introduced a Tourism Diploma at the Malawi Institute of Tourism and a four-year Bachelors Degree in Tourism and Hospitality Management at one of its Universities. In Malawi, temporary employment and Business Residence Permits for expatriate personnel are readily available for key staff as well as for positions where there are skill shortages in the local economy (MIPA, 2009:24). In addition, Nakagawa *et al.* (2009:68) note that, in 2005, Malawi's overall ranking in the Human Development Report was 164th out of 177 countries and that both skilled and semi-skilled labour is scarce in Malawi.

However, labour costs for both skilled and unskilled labour in Malawi are among the lowest in the region with its monthly wage of US\$32 for an unskilled worker which compares favourably with similar skill level workers in India and China (MIPA, 2009:23). Furthermore, MIPA (2009:23) claims that Malawi's labour force is disciplined, hard-working, reliable, readily trainable and English-speaking.

Boniface and Cooper (2005:314) argue that education and training in the tourism sector is of a poor standard. Naude and Krugell (2003:10) therefore suggest that African countries need to adopt a less restrictive policy on the recruitment and immigration of temporary skilled labour from abroad.

According to Wheeler and Mody (quoted by Kandiero & Chitiga, 2006:358) low labour cost may give a host country an advantage over other countries in attracting FDI. However, more often than not, low labour costs are usually associated with unskilled labour which is not what foreign investors are always looking for.

3.6.7 GENERAL INVESTMENT POLICIES

In Malawi, both local and foreign investors are free to access local and foreign financing. This is, however, subject to existing laws regulating remittances abroad of income deriving from the investment, and capital in the case of disinvestment (Malawi Government, 2010:11).

Malawi welcomes private investment and does not impose restrictions on ownership, sector and location of investment. There is also freedom of entry and exit in terms of investment (MIPA, 2009:47). However, Nsiku and Kiratu (2009:21) note that foreign investors are excluded from operating in the car hire and taxi services sectors.

Kazembe and Namizinga (2007:22,26) found that most foreign investors in Malawi felt that the existing investment frameworks restrict their operations. In addition, the law on profit repatriation needs to be relaxed, even though, in general, investors are allowed to repatriate profits and capital. Contrary to what is currently happening in Malawi, Yunis (2004:106) notes that, in the early stages of tourism development, countries tend to put in place liberal and attractive regimes for tourism investment projects.

3.6.7.1 LAND POLICY

Ownership and usage of land in Malawi is governed by the Land Policy (2002) and the Land Act (MIPA, 2009:48). For locals, land can be leased for a maximum of 99 years (Malawi Government, 2010:4). However, Goldstein (2004:23) notes that Malawi's new land policy issued in 2002 prohibits foreigners from owning land. This is a mere interpretation as Malawi government does not prohibit foreigners from owning land, but the process involved has become cumbersome and costly to such extent that it becomes easier for foreign investors to partner with locals who have easy access to land.

In addition, Nsiku and Kiratu (2009:17,29,32) and World Bank (2010b:38) found that foreign investors in the tourism industry did not like the present arrangement where residential properties are located in areas ideal for tourist establishments. The tourism sector in Malawi is quite liberalised with extremely low barriers to entry for most small and medium operators and therefore the application of national standards and compliance requirements is rather elusive because of the cost of enforcement. They therefore recommend that tourism must be included in land use planning which is currently biased towards agricultural use. Furthermore, the OECD (2006:12) maintains that countries should strive for a transparent, stable and predictable investment climate.

Malawi Government (2008:6) also concedes that among the numerous challenges facing tourism development in Malawi is unplanned lakeshore development which has taken place over the years in the form of cottages in prime tourist areas. In addition, Tourism Intelligence International (2008:23,56) found that development plans involving tourism projects do not have to be submitted to the ministry for approval. This has resulted in uncontrolled developments in prime tourism areas. As a result, current developments by the private sector are directed towards high density resorts based on low package selling price, low quality and high volume turnover. Bhatia (2001:394) notes that tourism is, to a great extent, dependent on the type and quality of accommodation and accommodation is the heart of the tourism industry.

Kikeri, Kenyon and Palmade (2006:102) note that Egypt was able to simplify and boost tourism investment by getting government to create a Red Sea Tourism Zone where all government ministries concerned pre-cleared the land for private investment. Furthermore, government's deliberate policy to set aside and zone and develop land for tourism development can help boost tourism FDI to a country (Kikeri *et al.*, 2006:102). Yunis (2004:106) argues that, during the early stages of tourism development, host country governments tend to develop liberal policies and regimes for tourism investment projects.

3.6.7.1.1 LAND OWNERSHIP FOR FOREIGN INVESTORS

Foreign private investors can only hold land under leasehold title for 50 years (MIPA, 2009:48). However, the current practice makes it difficult for foreign investors to acquire land as they have first to identify the land themselves, which is usually bought by locals for speculative reasons and, after making an offer for the land, they have to put a legal notice in the papers to see if a local resident can make a better offer within a period of 21 days, failure of which allows the foreign investor to proceed with the process of acquiring the land.

Yu (1999:20) maintains that the availability of inexpensive land is the main motivation for any hospitality company to build a hotel in a developing country.

3.6.7.2 POLICY ON CORRUPTION

Asiedu (2005:5), and Kandiero and Chitiga (2006:355) note that several surveys found corruption and weak governance to be one of the biggest deterrents of FDI to Africa. Malawi has adopted a zero tolerance policy towards corruption and established an Anti

Corruption Bureau which has over the years handled high profile corruption cases of politicians and high ranking civil servants.

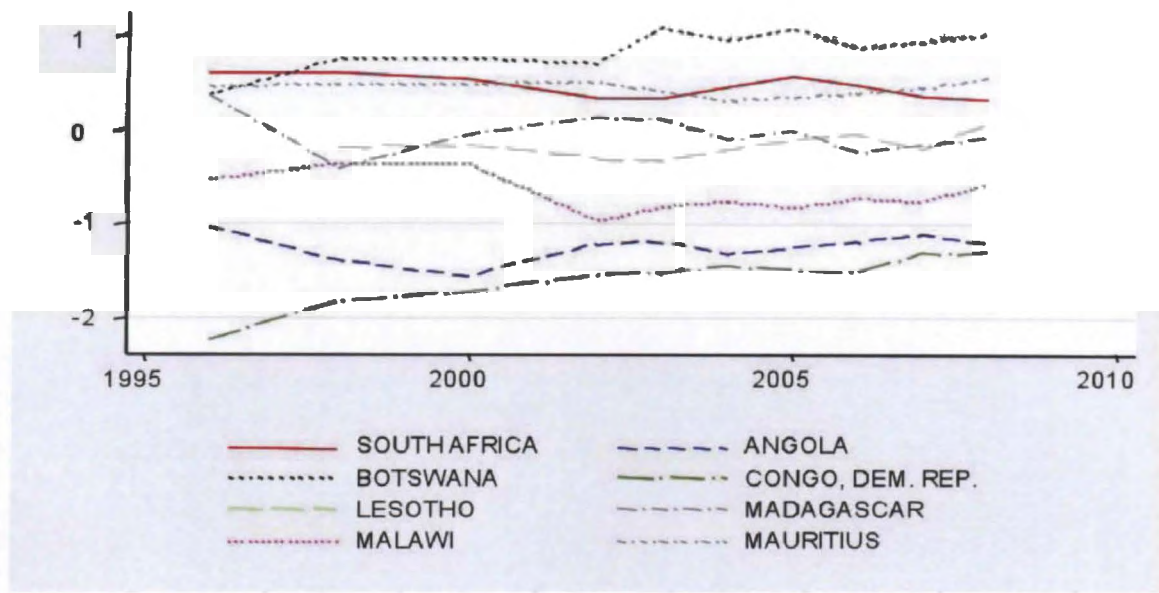


Figure 3.3 Control of Corruption Index (Source: World Bank 2010b)

Figure 3.3 shows the level of corruption in eight SADC countries. According to the World Bank (2010a:11) Botswana, South Africa, Mauritius, Madagascar and Lesotho are considered to be free of corruption. Malawi is considered to have moderate corruption whilst in Angola and the Democratic Republic of Congo corruption is a serious problem. The investment policy framework will, among other things, include investment facilitation institutions. Section 3.4 discusses the Malawi investment facilitation structure.

3.7 STRUCTURE OF INVESTMENT FACILITATION IN MALAWI

Malawi’s investment framework is administered by the Malawi Investment Promotion Agency (MIPA). MIPA, which is a government agency, was established in 1991 and is charged with the duty of promoting, attracting, encouraging, facilitating and supporting foreign and domestic investment in Malawi (Tourism Intelligence International, 2008:51). MIPA is the first port of call for all potential investors and provides a one-stop-shop service to them (MIPA, 2009:50). OECD (2006:35) notes that centralising functions of government relating to foreign investment promotion and facilitation is popular. However, OECD (2006:38), quoting UNIDO, argues that there is no evidence to confirm that a one-stop-shop is indeed a magic solution for sub-Saharan Africa.

It proposes however, that Investment Promotion Agencies (IPA) liaise closely with government departments rather than internalise all approvals and implementation functions. MIPA, as an investment promotion agency, has had its own share of challenges which include lack of adequate funding, high staff turnover and lack of motivation of its staff, which has, among other things affected its operations and effectiveness. The OECD (2006:36) maintains that governments need to be fully committed to investment agencies by adequately funding them in order to retain motivated and qualified staff. For the agency to be more adaptable and dynamic, it also needs to have private sector representation on its Board of Directors.

The OECD (2006:34) notes that it becomes difficult for a country to interest a potential investor, who was frustrated because of institutional incapacities, to consider investing in a country again. In this regard, it is imperative that a country gets its investor handling right the first time as the possibility of a second chance is very slim.

According to MIPA (2009:52), investment applications are processed and approved by an Inter-Agency Committee known as the Investment Approval Committee (IAC) that offers approval process assistance for various permits such as business residence and employment permits within 10 calendar days.

Individual government ministries and departments can also facilitate investment (Malawi Government, 2008:9). The entry point for investment, in some cases, has been through ministers, politicians and even the President. However, much as tourism investment can come through the ministry responsible for tourism, the ministry does not have the legal powers to review tourism investment that would have come through other government agencies such as MIPA (Tourism Intelligence International, 2008:23). Pan and Polishuk (2007:3) notes that Egypt, which increased its FDI inflows from a mere US\$700 million in 2000 to US\$11 billion in 200 after making major policy reforms which included privatisation programmes and streamlining investment procedures. However, Kazembe and Namizinga (2007:8,14) notes that most potential foreign investors have complained about the lack of information on Malawi's business environment and propose that the Malawi government should adopt a more targeted investment promotion strategy. This implies that the Malawi Investment Promotion Agency is not doing much in promoting Malawi as an investment destination.

The OECD (2006:34) maintains that countries with a weak business environment need to spend their limited resources on improving the investment climate rather than on promotion.

Figure 3.4 shows the process through which a potential investor will pass when investing in Malawi:

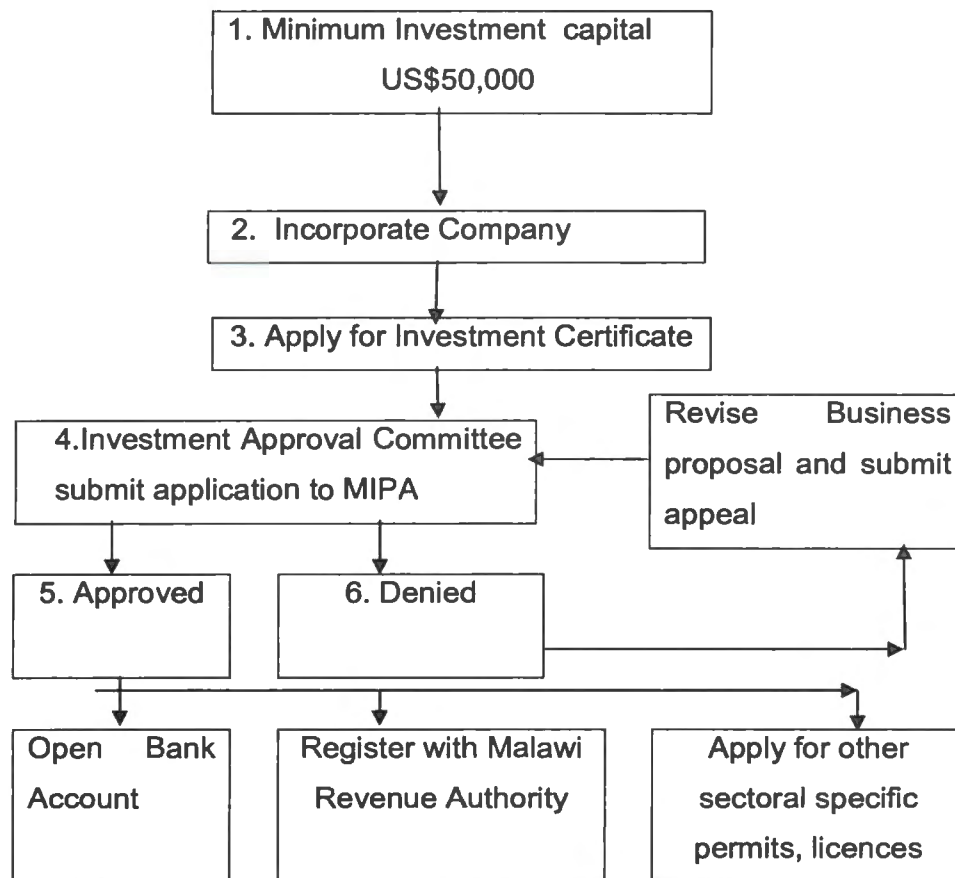


Figure 3.4: Investment Procedure Structure (Source: MIPA, 2009)

According to MIPA (2009:52), the minimum investment in any sector is US\$50 000. The investment process starts with the prospective investor incorporating their company either as a partnership or a limited company. They then have to submit a business proposal and apply for a business licence to operate in Malawi.

The investment environment of any country is not without its own challenges. Section 3.7 outlines and discusses Malawi's general investment constraints.

3.8 GENERAL CONSTRAINTS TO INVESTMENT IN MALAWI

Malawi faces a number of challenges in attracting FDI and these include absence of an effective legal and institutional framework, macroeconomic instability, poor infrastructure, corruption and a small domestic market. Table 3.2 below shows some of the constraints a foreign investor faces when undertaking FDI in Malawi.

Table 3.2: Ease of Doing Business in Malawi Index

Activity	Doing Business 2010 Rank	Doing Business 2009 Rank	Change in Rank
Overall Doing Business Country Index	132	131	-1
Starting a business	128	124	-4
Dealing with construction permits	163	155	-8
Employing workers	92	86	-6
Registering property	101	100	-1
Getting property	87	84	-3
Protecting investors	73	70	-3
Enforcing contracts	142	140	-2
Paying taxes	24	60	+36
Closing a business	130	137	+7

Source: (The World Bank, 2010)

The World Bank (2010a:1) notes that doing business in Malawi has not improved overall, except only when it comes to paying taxes where the country's ranking has improved from 60th in 2009 to 24th in 2010 as shown in Table 3.2 above. Malawi's poor ranking in terms of doing business is caused by a number of constraints which include a weak legal and institutional framework, macroeconomic instability, underdeveloped infrastructure, corruption and a small domestic market.

Kazembe and Namizinga (2007:9) found that the key deterrents to investing in Malawi are lack of a proper legal framework, macro-economic instability, poor infrastructure, corruption and market size.

3.8.1 LEGAL AND INSTITUTIONAL FRAMEWORK

The legal powers of those responsible for tourism policy and planning have not been established. As a result, the Ministry of Tourism, Wildlife and Culture does not possess the legal support to plan, promote or monitor the sector or to establish appropriate operating standards and ensure that these are maintained. There is an urgent requirement for these powers to be defined within the context of a comprehensive Tourism Law establishing the statutory functions of the MTWC and its relationships with other government departments (Tourism Intelligence International, 2008:22).

The World Bank (2010) notes that, in terms of starting a business, it generally takes 10 procedures in 39 days to start a business in Malawi compared to 9.4 procedures in 45.6 days in sub-Saharan Africa and 5.7 procedures in 13 days in OECD countries. Similarly, there are 21 procedures which take 213 days to obtain construction permits in Malawi compared to 17.1 procedures and 260.5 days in sub-Saharan Africa and 15.1 procedures and 157 days in OECD countries.

3.8.2 MACROECONOMIC INSTABILITY

Much as Malawi has achieved economic growth over the past five years, the growth of real per capita GDP has been very low (Kazembe & Namizinga, 2007:22). The country's over reliance on rain-fed agriculture and tobacco, which is under heavy attack by anti-smoking groups in the West, makes the country vulnerable to market uncertainties for tobacco and weather elements.

3.8.3 POOR INFRASTRUCTURE

Poor infrastructure and high electricity rates have also affected the Malawi's ability to attract FDI (OECD, 2008:409). According to Kazembe and Namizinga (2007:24) the absence of supporting infrastructure such as telecommunication, transport, power and water has discouraged foreign investors from investing in Malawi.

In addition, Nakagawa *et al.* (2009:68) note that Malawi's power supply is relatively poor, registering an average of 50 days power disruption in 2004, compared to 48 days in Tanzania and 15 days in Zambia.

However, Nakagawa *et al.*, (2009:57) concede that the Malawi government is currently improving the road network, airports, water and energy supply. Balasubramanyam (2002:188) maintains that infrastructure, including transport and communication

networks are essential for attracting FDI. In addition, Mukasa (2008:159) maintains that basic infrastructure is a key component of the investment climate and is fundamental in attracting FDI.

3.8.4 CORRUPTION

In their study, Kazembe and Namizinga (2007:9) identified corruption as one of the deterrents of FDI inflows to Malawi. Nakagawa *et al.*, (2009:68) note that Malawi scored 2.7 points out of 10 (with 10 considered free from corruption) and was ranked 118th out of 180 countries in a 2007 Transparency International Corruption Perception Index.

3.8.5 MARKET SIZE

According to Kazembe and Namizinga (2007:13), Malawi has a GDP per capita of US\$200 and is one of the ten poorest countries in the world. UNCTAD (2007:10). Market size was mentioned as a major determinant of FDI. However, it also found that access to regional markets, which Malawi has through SADC and COMESA, was an equally important determinant of FDI. Furthermore, Nakagawa *et al.*, (2009:68) note that Malawi's economy is relatively small with a Gross National Product (GNP) of US\$2.172 billion (2006). The country has weak purchasing power due to low incomes, which limits domestic demand. Balasubramanyam (2002:188) argues that regional groupings and preferred trading arrangements between recipients of FDI may increase FDI flows.

However, according to MIPA (2009:12), Malawi's membership to COMESA and the SADC gives potential foreign investors access to a potential market of 340 million people and a combined GDP of US\$170 billion, and 199 million people and US\$176 billion in GDP respectively.

3.9 SUMMARY

Chapter three discusses Malawi's economy and the state of the tourism economy. It also outlines in detail Malawi's major FDI policies, that is, tourism policy, general investment policy, labour policy, tourism incentive policies, among other policies and discusses them based on consultants' reports and relevant existing literature.

In summary, the chapter notes the following:

- Malawi is a small country in southern Africa which shares international borders with Zambia, Mozambique and Tanzania

- The country's economy is largely dominated by agriculture which accounts for over 85% of total exports, 80% of the adult population and contributes 32% to GDP.
- The Malawi tourism industry is still in its infancy, contributing 4.7% to GDP in 2007.
- General constraints to tourism development and investment include lack of direct flights to overseas markets, limited tourism promotional budget of \$300 000 (2008) which accounts for only 1.3% of total government expenditure, and the cost of doing business being relatively high.
- Several studies have shown that Malawi has been unable to attract FDI into the tourism sector because of the undeveloped infrastructure, small size of the economy, corruption perception, poor planning and unenforceable tourism policies due to lack of capacity and resources.

Chapter 4 presents and discusses findings of empirical research of this study.

CHAPTER 4

THE EMPIRICAL ANALYSIS

4.1 INTRODUCTION

Chapter Four will present the findings of the field survey and will attempt to analyse the data against the literature outlined and discussed in Chapters 2 and 3. The data that was collected through a questionnaire will be used to produce descriptive statistical tables as well as in performing a factor analysis. The questionnaire was sent out to 50 accommodation units in Malawi which had a component of FDI.

The chapter will respond to the research question asked in Chapter 1 by identifying key factors influencing FDI into the Malawi tourist accommodation sector and also discuss the findings against a backdrop of existing literature.

The chapter will also outline the constraints within which the survey was conducted, its limitations, and also compare the results with findings of similar surveys that were conducted in different countries. Lastly the chapter will discuss the sample size, sampling method and the limitations of the survey.

4.2 DISCUSSION AND LIMITATION OF DATA

In collecting the data, 50 questionnaires were sent out to the whole population, that is, all owners of Malawi accommodation units that have some element of FDI and 37 questionnaires were returned representing a 70% response rate, as 2 questionnaires were returned incomplete and could not be used. This compares favourably with another survey carried by Nsiku and Kiratu (2009:12) to determine the impact of incentives in attracting FDI to the Malawi tourism sector which had a sample of 30 operators with only 18 responding representing a response rate of 60%. It is also important to note that Malawi has very few foreign direct investors in the tourism industry and most of investments in the tourist accommodation sector have been by government (Nsiku and Kiratu, 2009:5).

4.3 FDI MOTIVATION FACTORS IN THE MALAWI TOURIST ACCOMMODATION SECTOR

Section 2.6 discusses possible general factors that investors consider when undertaking tourism FDI decisions. In developing the survey, the questionnaire was adapted from one used by Snyman and Saayman (2009:51) in seeking to identify key factors

influencing FDI in the tourism industry in South Africa. A similar questionnaire was used because the research questions of both surveys were similar with the only differences being that one was done in Malawi and the other in South Africa. The results of the Malawi survey will therefore be discussed based on findings of the above research study as the survey will seek to compare, contrast and discuss the results of the South African findings to the Malawian survey results.

In their survey, Snyman and Saayman (2009:55) identified five groups of factors that influence FDI flows into the South African tourism sector. These were perception and infrastructure; government and policy; economy; competitiveness and nature. These five groups of factors were factored into the questionnaire.

In the questionnaire, respondents were asked to rate the factors that influenced their decision to invest in tourism accommodation in Malawi on a scale from very important (1) to not important at all (5). Fifty (50) questionnaires were sent out throughout Malawi to operators of tourist accommodation units that had some element of FDI. Data from 35 questionnaires was collected and analysed.

Descriptive results of the Malawi survey are given in Table 4.1 through Table 4.6 below:

Table 4.1: Profile of Malawi Tourist Accommodation Foreign Direct Investors

Country of Origin	Sample (%)	Area invested in (%)			Average Investment (US\$)
		Lakeshore	City	National Park	
South Africa	31%	40%	20%	40%	2 million
United Kingdom	25%	50%	25%	25%	6 million
China	13%		100%		1 million
Italy	13%	50%	50%		3 million
The Netherlands	6%	100%			3 million
India	6%	100%			1 million
France	6%	100%			1 million

Table 4.1 shows a profile of Malawi tourist accommodation foreign investors who responded to questionnaires sent to them. The table shows that thirty-one percent (31%) of the Malawi tourist accommodation foreign direct investors were from South Africa, 25% from the United Kingdom, 13% from China, 13% from Italy, and 6% from the Netherlands, 6 % from India and 6% from France. In addition, it also found that the United Kingdom, the Netherlands, India and France had more investments at the Lakeshore. South Africa had investments at the lakeshore and also in national parks. China's investments are predominantly in the cities.

According to Tourism Intelligence International (2008:32), the country's major tourist source markets include the United Kingdom, South Africa, Germany and the Netherlands, in that order. This correlates with the Malawi Department of Tourism (2008:16) which notes that, in 2008, international arrivals to Malawi from South Africa constituted 13.1% of total international arrivals, the United Kingdom 6.3%, the Netherlands 1.6%, Italy 0.7%, France 0.5% and China 0.4%. The report also shows that 30% of South Africans visited Malawi on holiday, 48% on business and 21% visited friends and relatives. For the United Kingdom, 60% visited Malawi on holiday, 26% on business and 14% friends and relatives. As for China, 26% came for holidays, 58% on business and 16% visited friends and relatives.

Following is a discussion of findings of the Malawi survey on the five factors influencing FDI decision, nature factor, economy factors, competitive factors, perception and infrastructure and government & policy.

4.3.1 NATURE FACTORS

Table 4.2: Nature Factors

Factor	Very Important	Important	Average	Less Important	Not important at all
Climate	31%	40%	14%	9%	6%
Scenery	43%	29%	23%	3%	3%
Wildlife	31%	27%	29%	3%	0%
Big 5	23%	29%	23%	17%	9%

The questionnaire asked respondents to rate factors on a scale of 1 (very important) to 5 (Not important at all). Under Nature factors, the Malawi survey found Scenery and Climate to be important factors with a total of 72% and 71%, respectively, of respondents finding them to be important in their decision to invest in the Malawi tourism accommodation sector. This confirms findings by Nsiku & Kiratu (2009:23), who found that 83% of respondents invested in Malawi because of its vast and unspoilt natural resources. Of the four factors rated under Nature, respondents found Wildlife (58%) and Big 5 (53%) to be of average importance as they fell slightly above 50%.

4.3.2 ECONOMIC FACTORS

The ECONOMIC factors included profit of lodge / hotel, market size and growth, inflation, interest rate, economy of Malawi, volatility of currency, financial markets and expected high returns. Findings of the respondents rating of Economy factor items appears in Table 4.3 below:

Table 4.3: Economic Factors

Factor	Very Important	Important	Average	Less Important	Not important at all
Profit of hotel / lodge	47%	29%	20%	3%	0%
Market size and growth	54%	43%	0%	3%	0%
Inflation	49%	34%	9%	9%	0%
Interest rate	60%	31%	9%	0%	0%
Economy of Malawi	43%	34%	23%	0%	0%
Volatility of currency	43%	43%	14%	0%	0%
Financial markets	43%	37%	20%	0%	0%
Expected high returns	49%	34%	14%	3%	0%

The analysis found that market size and growth rate of market (97%), interest rates (91%), Volatility of currency (86%), expected high returns (83%), inflation (83%), financial markets (80%), economy of Malawi (77%) and profitability of lodge / hotel (73%) to be important factors. In their survey, Nsiku and Kiratu (2009:16) found that foreign investors in the Malawi tourism sector found that market size and growth rate was one of the drivers of their decision to invest in the Malawi tourism sector. Lall (1997:22) notes that a relatively well managed economy with realistic exchange and interest rates, low inflation and manageable external debt inspires investment. In addition, Pham (2004:10) maintains that several studies have confirmed that major FDI inducements tend to include economic variables such as per capita income, economic growth and inflation rates.

The survey found that all items under economy were rated important by respondents from market size and growth (97%) to profitability of lodge/ hotel (73%). This confirms findings by several studies (Lall, 1997:22; Nazmi, 2001:128; Pham, 2004:10) that economic factors are the main factors investors consider when undertaking FDI.

4.3.3 COMPETITIVE FACTORS

Under competitive factors, respondents were asked to rate the level of trained employees, incentives offered by government, local market size, availability of raw materials / natural resources, tourist receipts, tourist arrivals, average room occupancy, privatisation public-private partnerships, historical / personal links with Africa, proximity to markets, growth to international travel to Malawi, entrance to African markets, tourism product base, location and business confidence. Respondents were asked to rate the above items from Very important (1) to Not important at all (5) and the results appear in Table 4.4 below:

Table 4.4: Competitiveness factors

Factor	Very Important	Important	Average	Less important	Not important at all
Level of trained employees	49%	26%	9%	17%	0%
Incentives offered by government	43%	37%	6%	11%	3%
Local market size	51%	23%	9%	9%	0%

Factor	Very Important	Important	Average	Less important	Not important at all
Availability of natural resources / raw materials	34%	46%	20%	0%	0%
Tourist receipts	54%	40%	6%	0%	0%
Tourist arrivals	26%	60%	6%	9%	0%
Average room occupancy	43%	43%	11%	3%	0%
Privatisation public/private partnership	40%	37%	9%	14%	0%
Historical / personal links with Africa	34%	23%	14%	23%	6%
Proximity to markets	37%	26%	20%	11%	6%
Entrance to African countries	29%	40%	26%	6%	0%
Tourism product base	49%	43%	9%	0%	0%
Location	37%	31%	11%	9%	11%
Business Confidence	43%	37%	11%	9%	0%

The survey found that tourist receipts (94%), tourism product base (92%), average room occupancy (86%), tourist arrivals (86%), availability of natural resources (80%), business confidence (80%), privatisation – public-private partnerships (77%), incentives offered by government (75%), and entrance to African markets (67%) were rated as important factors that attracted the investors to Malawi. In their survey, Snyman and Saayman (2009:52,55) found that the competitiveness of a destination is a major determinant for tourism FDI. Tourist arrivals are also considered a major inducement to tourism FDI (Yu, 1999:34; Agarwal & Upadhyay, 2006:183).

However, historical links (57%), entrance to African markets (67%) and level of trained employees, (68%) were rated average were all rated close to average as respondents considered them of average importance.

4.3.4 PERCEPTION AND INFRASTRUCTURE FACTORS

Items respondents were asked to rate under the perception and infrastructure factor were level of unrest / disturbances, crime, political stability, level of corruption, growth of international travel, terrorism, availability of foreign exchange, legal rights, availability of banks, availability of fresh water, improvement of constitutional negotiations, HIV / AIDS, availability of roads, location of airports, labour disturbances / unrest, investment information, tourism promotion, protection of investment and logistics. The results appear in Table 4.5 below:

Table 4.5: Perception and Infrastructure Factors

Factor	Very Important	Important	Average	Less Important	Not Important at all
Level of unrest / disturbances	49%	29%	17%	3%	3%
Crime	37%	23%	26%	9%	6%
Political stability	40%	23%	25%	6%	6%
Level of corruption	54%	29%	17%	0%	0%
Growth of International Travel	37%	37%	20%	6%	0%
Terrorism	37%	20%	11%	26%	6%
Availability of fresh water	71%	20%	3%	3%	3%
Improvement of constitutional negotiations	43%	37%	9%	9%	3%

Factor	Very Important	Important	Average	Less Important	Not Important at all
HIV / AIDS	57%	26%	11%	3%	3%
Availability of roads	49%	29%	11%	11%	0%
Location of airports	54%	29%	11%	6%	0%
Labour disturbance	69%	23%	6%	3%	0%
Investment information	51%	37%	9%	3%	0%
Tourism promotion	49%	34%	17%	0%	0%
Protection of investment	57%	43%	0%	0%	0%
Logistics	63%	23%	9%	3%	3%

In terms of importance, respondents ranked protection of investment (100%), labour disturbances / unrest (92%), availability of water (91%), availability of investment information (88%), logistics (86%), level of corruption (83%), HIV /AIDS (83%) and location of airports (83%), tourism promotion (83%), availability of banks (80%), legal rights (80%), Improvement of constitutional negotiations (80%), level of unrest / disturbances (78%), availability of roads (78%), growth of international travel (74%) and availability of foreign exchange (74%).

Furthermore, security of one's investment was found to be important with 80% of respondents rating legal rights, level of unrest (78%) and improvements in constitutional negotiations (80%) important. Easy movement within the country was also considered important with 86% and 83% of respondents indicating logistics and location of airports as important, respectively. Availability of banks (80%) and foreign exchange (74%) were also considered important factors that influenced foreign investors to invest in the Malawi tourist accommodation sector. Yunis (2004: 107) maintains any risk and perception of risk is likely to keep tourists away hence the need for host country to keep this to a minimum in order to attract investment in the tourism sector. In addition, Wei (2004:23) also notes that corruption, regulatory burden and country risk deter FDI inflows to a country.

Respondents, who had already invested in Malawi ranked terrorism (57%), crime (60%) and political stability (63%) as generally important even though these factors did not affect their decision to invest in Malawi. This could be so because Malawi is considered one of the most peaceful countries in Africa (Malawi Government, 2010:8).

4.3.5 GOVERNMENT AND POLICY FACTORS

Under government and policy factors, respondents were asked to rank bureaucracy, diplomatic ties, government expenditure on tourism, tourism as a priority sector, environmental legislation, industry charters, labour costs and labour law of Malawi. Results of the survey are presented in Table 4.6 below:

Table 4.6: Government and Policy Factors

Factor	Very Important	Important	Average	Less Important	Not Important at all
Bureaucracy	40%	37%	14%	9%	0%
Diplomatic ties	43%	20%	9%	23%	6%
Government expenditure on tourism	40%	43%	17%	0%	0%
Tourism as priority sector	49%	37%	14%	0%	0%
Environmental legislation	29%	26%	34%	6%	6%
Industry charter	40%	31%	11%	11%	6%
Labour costs	54%	29%	11%	6%	0%
Labour law of Malawi	57%	31%	9%	3%	0%

On factors grouped under government and policy, respondents found labour law of Malawi (88%), tourism as a priority tourism sector (86%), government expenditure on tourism (83%), bureaucracy (77%), labour costs (83%) and industry charters (71%).

However, respondents ranked environmental legislation (55%) and diplomatic ties (63%) as average. The two items were not considered as sufficiently important to influence investors' FDI decision.

4.4 RANKING FACTOR ITEMS

The items respondents rated as important, regardless of the factor group they belong to are presented in Table 4.7 below:

Table 4.7: Malawi Tourist Accommodation Units Top Ten Factors Influencing the FDI Decision

FDI Factor	Percentage			Rank
	Very Important	Important	Total	
Protection of investment	57%	43%	100%	1
Market size and growth	54%	43%	97%	2
Tourist receipts	54%	40%	94%	3
Labour disturbances/unrest	69%	23%	92%	4
Tourist product base	49%	43%	92%	4
Availability of fresh water	71%	20%	91%	5
Interest rates	60%	31%	91%	5
Labour law of Malawi	57%	31%	88%	6
Investment information	51%	37%	88%	6
Logistics	63%	23%	86%	7
Labour costs	57%	29%	86%	7
Tourism as priority	49%	37%	86%	7
Volatility of currency	43%	43%	86%	7
Room occupancy	43%	43%	86%	7
Tourist arrivals	26%	60%	86%	7
HIV/AIDS	57%	26%	83%	8
Location of airports	54%	29%	83%	8

FDI Factor	Percentage			Rank
	Very Important	Important	Total	
Level of corruption	54%	29%	83%	8
Expected high returns	54%	29%	83%	8
Inflation	49%	34%	83%	8
Tourism promotion	49%	34%	83%	8
Government	49%	34%	83%	8
Expenditure on tourism	40%	43%	83%	8
Availability of natural resources	34%	46%	80%	10
Availability of roads	49%	29%	78%	10
Level of unrest	49%	29%	78%	10

Table 4.7 presents the top five items within factors that were rated as important by respondents in Malawi. The factor items that scored highly were protection of investment (100%), market size and growth (97%), tourist receipts (94%), labour disturbance / unrest (92%), tourism product base (92%), availability of fresh water (91%) and interest rates (91%). These can be said to be the main factor items the survey identified as important to respondents when undertaking FDI decision.

The ranked individual factor items will be matched to the factor groups they belong to in order to rank the factor groups.

4.4.1 IMPORTANT FACTOR ITEMS RANKED ACCORDING TO FACTOR GROUP

Table 4.8 ranks factor items in terms of factor groups they belong to.

Table 4.8: Ranking Factors Items According to Factor Groups

Rank	Perception & Infrastructure	Government & Policy	Economy	Competitiveness
1.	1. Protection of investment			
2.			1. market size & growth	
3.				1. Tourist receipts
4.	1. Labour unrest			1. Tourism product base
5.	1. Availability of fresh water		1. Interest rates	
6.	1. Investment information	1. Labour law		
7.	1. Logistics	1. Labour costs 2. Tourism as priority sector	1. Volatility of currency	1. Room occupancy 2. Tourist arrivals
8.	Level of corruption 2. HIV / AIDS 3. Location of airports 4. Tourism promotion	1 Government expenditure on tourism	1. Inflation 2. Expected high returns	
9.	1. Legal rights 2. Availability of banks 3. Improvement of constitutional negotiations		1. Financial markets	1. Incentives 2. Availability of natural resources 3. Business confidence
10.	1. Level of unrest 2. Availability of roads			

Table 4.8 shows Perception and infrastructure has more items ranked in the top five. These are protection of investment (1), labour unrest / disturbances (4) and availability of

freshwater (5). This is seconded by the Economy factor with market size and growth (2) and interest rate (5). The third group of factors is Competitiveness with tourist receipts and tourism product base ranked by respondents 4th to 5th respectively. The fourth ranked factor group is Government and policy with labour law ranked 6th and labour costs and tourism as a priority sector ranked 7th. The last ranked factor group is Nature which does not have any item ranked in the top ten.

In order of importance, the factor groups are ranked as follows: Perception and infrastructure, Economy, Competitiveness, Government & policy and, lastly, Nature.

Since the descriptive analysis in Tables 4.2 through 4.8 only provides independent rating for each items under factor groups without explaining relationships amongst the items. There is a need to perform a factor analysis on the data to identify the few items that are largely responsible for explaining variances. In addition, factor analysis will isolate those factors that are not correlated for further investigation and study.

Table 4.8 excludes the Nature Factor as none of its items falls within the top ten ranked items.

4.5 FACTOR ANALYSIS

Considering that Malawi has 50 operators in the tourist accommodation sector which are a result of FDI, the entire population was taken as the sample (Meyer, 2002:112; Rice, 2007:209 and Johnson & Christensen, 2010:233). Kline (1994:180) notes that using small samples can produce misleading results. However, Rummel (1988:355) cautions that when performing factor analysis for big samples there is a danger that the smallest common factors can become significant.

In justifying use of small samples in factor analysis, Pearson (2008:6) notes that sample sizes between 35 and 75 provided good factor recovery in some conditions. Pallant (2011:6) further argues that inter-relationships among variables and items are of paramount importance when working with small samples and recommends that the strength of inter-relationship to be at least 0.30 or greater. When all communalities are high, sample size has a small effect on accuracy of sample loadings (Pearson, 2008:5). Furthermore, Walker (1999:236), Yu (2008:187) and Codita (2011:102) found that when performing factor analysis factor loadings of at least 0.5 per construct are more important than sample size. In addition, Johnson and Christensen (2010:233) recommend using the whole population in factor analysis when the population is 100 or less. According to Walker (1999:235) in terms of ratio of subjects to items,

recommended that 4 to 5 cases for each item are adequate for factor analysis and that a sample size of at least 50 is recommended for factor analysis to be performed. In this case there were 55 statements for five parameters which translate to a ratio of 10:1 which is more than the rule of thumb recommendation.

In this regard, the researcher proceeded with the factor analysis in spite of the relatively small sample size. Data analysis was performed using the Statistical Programme for Social Sciences (SPSS 16.0).

4.5.1 MEASURE OF SAMPLE REALIABILITY FOR FACTOR ANALYSIS

Considering that sample size used in the survey was 50 and therefore small, a Bartlett's Test was conducted on the sample to determine whether to proceed with a Factor analysis.

Table 4.9 below shows the results of the Bartlett's test that was conducted on the sample.

Table 4.9: Bartlett's Test on Survey Sample

Bartlett's Test of Sphericity	
Approx Chi-square	825.128
Df	528
Sig.	.000

The Bartlett's test of sphericity was found to be significant with $p < 0.05$ (see Table 4.9 above) and correlation matrix was examined to determine the inter-relationships between the items and factors, with coefficients of 0.30 or more inspected for further investigations. Principal components factor extraction method was used with Kaiser's criterion or eigen value of 1 or more retained for further investigations. The Promax rotation method was adopted with an assumption that the items are correlated and yielded the results in Table 4.8 below.

4.5.1 FACTOR ANALYSIS ON DATA

Since the sample was found to be adequate for a Factor analysis, as confirmed by the Bartlett's test of sphericity which was found to be significant, a Factor analysis was

performed on data collected from the respondents who participated in the survey. The results of the Factor analysis appear in Table 4.10 below:

Table 4.10: Results of the Factor Analysis

Factors	Factors				
	1	2	3	4	5
	Perception & Infrastructure	Government & Policy	Economy	Competitiveness	Nature
Political stability	0.676				
Availability of banks	0.595				
Availability of tourist investment information	0.557				
Level of unrest / disturbances	0.555				
Malaria	0.535				
Logistics	0.529				
Terrorism	0.502				
Tourism promotion	0.467				
Protection of investment	0.460				

Factors	Factors				
	1	2	3	4	5
	Perception & Infrastructure	Government & Policy	Economy	Competitiveness	Nature
Improvement of constitutional negotiations	0.454				
Availability of fresh water	0.449				
Crime	0.437				
Business confidence	0.425				
Availability of roads	0.418				
Level of corruption	0.409				
Location of airports	0.377				
HIV / AIDS	0.369				
Foreign exchange	0.339				
Bureaucracy		0.646			
Labour law of Malawi		0.645			
Environmental legislation		0.536			

Factors	Factors				
	1	2	3	4	5
	Perception & Infrastructure	Government & Policy	Economy	Competitiveness	Nature
Government expenditure on tourism		0.532			
Tourism as a priority sector		0.511			
Industry charters		0.407			
Diplomatic ties		0.445			
Level of trained staff		0.370			
Labour costs		0.364			
Market size & growth			0.690		
Volatility of currency			0.556		
Economy of Malawi			0.475		
Financial markets			0.473		
Inflation			0.453		
Expected high returns			0.427		
Interest rate			0.418		

Factors	Factors				
	1	2	3	4	5
	Perception & infrastructure	Government & Policy	Economy	Competitiveness	Nature
Tourist arrivals				0.615	
Tourism product base				0.535	
Average room occupancy				0.449	
Historical/ personal links with Africa				0.448	
Entrance to African markets				0.430	
Availability of natural resources/ raw materials				0.419	
Incentives offered by Malawi government				0.398	
Tourism receipts				0.363	
Privatisation public private partnerships				0.342	

Factors	Factors				
	1	2	3	4	5
	Perception & Infrastructure	Government & Policy	Economy	Competitiveness	Nature
Climate					0.582
Big five					0.552
Wildlife					0.516
Scenery					0.461
Percentage of Variance	20.943	10.925	8.468	8.167	5.874
Mean Values	1.86	1.91	1.70	1.93	2.19

The factor analysis explained 54.7% of variance. According to rotated components analysis, perception and infrastructure had the highest number of loadings with political stability having the highest loading of 0.676 and foreign exchange with the lowest loading of 0.339. In total it explained 20.943% of variation. Government and policy is the second factor with the highest loading of 0.646 for bureaucracy and labour costs being the lowest at 0.364. In total, government policy explained 10.925% of the variance. This was followed by economy with market size & growth having the highest loading of 0.690 and the lowest being interest rate of 0.418. The economy factor explained 8.468% of the variance. Competitiveness was another factor considered with tourist arrivals with the highest loading and privatisation having the lowest, in total it explained 8.167% of the variance. Lastly, with 5.874% of the variance explained, the nature factor has climate determinant with the highest loading and scenery with a lowest loading of 0.461.

The difference in the ranking of the three factors between the two findings, that is, Nature, Government and Policy and Competitiveness could be due to two reasons. First, Malawi as a least developed and poor country and having an underdeveloped tourism sector (see Sections 3.2 and 3.4) still largely depends on government, which also formulates policy, to develop the sector. Hence its importance to foreign investors. In addition, putting up good infrastructure in poor countries is a huge challenge (Bianchi, 2002:290-291). Secondly, Malawi's tourism being in the infancy stage would not ideally

be looking at competing with more developed tourist destinations and as such Competitiveness as a factor would obviously rank low. In tourism, the nature of FDI tends to be influenced by the stage and level of tourism development and tourism specific assets. (Dwyer, 2005:303; UNCTAD, 2007:33).

4.5.1.1 FACTOR ANALYSIS AND RESULTS EXPLAINED

Results of the factor analysis as presented in Table 4.11 above are explained below:

4.5.1.1.1 ECONOMIC FACTORS

Economy as a key factor is made up of determinants such as profitability of hotel/lodge, interest rates, economy of Malawi, foreign exchange, currency volatility, market size and growth, inflation and expected high returns.

Table 4.12 ranks market size and growth, interest rates, economy of Malawi, expected high returns and inflation as important factors.

A factor analysis of the components of economy as a determinant of FDI flows into Malawi in Table 4.10 ranked market size and growth, volatility of currency, economy of Malawi, financial markets and inflation as important. Several surveys found that the economy was the principal factor that attracted FDI (see Section 2.5.2).

Lall (1997:22) observed that a relatively well managed economy with realistic exchange and interest rates, low inflation and manageable external debt inspires investment. A survey on the impact of incentives on FDI in the tourism sector in Malawi by Nsiku and Kiratu (2009:16) confirms the result of the survey as it found that market size and growth was one of the main drivers of FDI decisions.

In contrast on the economy, the South African survey by Snyman and Saayman (2009:54) found market size and growth of market, the economy of South Africa, expected high return, inflation and profitability of lodge / hotel as top five factors. Only three of these factors are similar to those identified by the Malawi survey. The Malawi survey found that currency volatility and inflation were rated important by foreign investors. Malawi has been able to attract FDI because the inflation rate has been in single digit and stable in the past five years (Reserve Bank of Malawi, 2008: 23-24). In Malawi the local currency is volatile since it receives very little FDI due to the small size of the economy Shelley (2004:222). In addition, only a few hotels and operators in the tourism industry may be making currency available in the formal market (Nsiku & Kiratu, 2009:25).

4.5.1.1.2 PERCEPTION AND INFRASTRUCTURE FACTORS

The descriptive survey data analysis found Perception and infrastructure to be the second most important factor. The factor includes political stability, crime, level of unrest, availability of banks, availability of fresh water, level of corruption, terrorism, foreign exchange, legal rights, improvement in constitutional negotiations, business confidence, HIV/AIDS, location of airports, labour unrest / disturbances, logistics, protection of investment, investment information and availability of roads.

Under the Perception and infrastructure factor, Table 4.12 ranks availability of roads, crime, logistics, tourism promotion and business confidence as the top five most important components of the Malawi Perception and infrastructure factor.

Nsiku and Kiratu ((2009: 17) found that in Malawi, investors seem not to worry much about poverty, crime and terrorism but worry about corruption. Availability of infrastructure and resources that facilitate efficiency were also considered important determinants. Poor infrastructure and high electricity rates have also affected the country's ability to attract FDI (OECD, 2008:409). Furthermore, Kazembe and Namizinga (2007:24) note that the absence of supporting infrastructure in Malawi such as telecommunication, transport, power and water has discouraged foreign investors.

In section 2.5.8 it was noted that negative perceptions about Africa were a major barrier to FDI flow into the continent and that social and political stability are critical factors in attracting foreign investment in tourism, much more than for any other sector. It was also noted that foreign investors in the tourism industry avoid politically risky countries as these would not guarantee certain hotel occupancy levels that would make the business economically viable.

Pollan (2006:10) believes that local politics and culture have an impact on FDI flows into a country and the United Nations (2008b:110) observed that the tourism industry is affected by violence and therefore a country susceptible to political instability would not attract FDI.

Research also confirms the findings of the survey that tourism promotion, which the survey found to be one of the main factors influencing tourism FDI decision under Perception and Infrastructure, is one of the main factors investors consider when undertaking tourism FDI. (Yunis, 2004:109 & Dwyer, 2005:297-298). Infrastructure, which includes transport and communication networks, was also found to be essential for attracting FDI (Balasubramanyam, 2002:188 & Mukasa, 2008:159).

However, it is interesting to note that, in their earlier survey on the role of incentives in attracting FDI into the Malawi tourism sector, Nsiku and Kiratu (2009:16) found that infrastructure was less important in the decision to invest in Malawi.

The South African survey found level of unrest, crime, political stability, foreign exchange and legal rights to be the top five determinants. The Malawi survey only identified crime as one of the important factor items influencing the tourism FDI decision. Malawi's other more important determinants, such as business confidence, logistics and availability of roads were rated as important in the Malawi survey considering that Malawi is still a developing and poor country with very basic infrastructure and business systems and, as such, tourism does not benefit from other sectors of the economy Dwyer (2005:529).

4.5.1.1.3 GOVERNMENT AND POLICY FACTORS

The Government and policy factor includes labour costs, industry charters, bureaucracy, labour law of Malawi, diplomatic ties, environmental legislation, government expenditure on the tourism sector and tourism as a priority sector.

In the Malawi tourism accommodation survey Factor analysis Table 4.10 ranks bureaucracy, labour law of Malawi, environmental legislation, government expenditure on tourism and tourism as a priority sector as important factors.

Blanke *et al.* (2009:421) notes that the percentage of the Malawi Department of Tourism promotional and development budget to total government expenditure is one of the lowest tourism promotional budgets among the selected countries. Pham (2004:9) argues that many studies found that government policies play an important role in maximising the benefits from FDI.

In comparison, in the South African survey, labour costs, bureaucracy, level of trained staff, and labour law were considered important factors when undertaking tourism FDI. In the case of the Malawi survey, only two tourism FDI decision factors; labour law and bureaucracy were considered important. However, owing to Malawi's low level of development in the tourism sector, government expenditure in the sector, environmental legislation and diplomatic ties, which are expected to attract investors from friendly governments, were considered more important (Dwyer, 2005:303; UNCTAD, 2007:33). In the South African survey, the investors were more interested in improved service levels - hence their rating labour costs, level of trained staff and labour law as more important factors.

4.5.1.1.4 COMPETITIVENESS FACTORS

Competitiveness includes privatisation or public-private partnerships, historical or personal links with Africa, investment incentives, growth of international travel to Malawi and tourism product base.

Table 4.12 found that, in the Malawi survey, privatisation / public-private partnerships, tourist receipts, growth of international travel to Malawi, tourist product base and historical / personal links with Africa rank highly as components of the competitiveness factor.

Nsiku and Kiratu (2009:17) found that Malawi's tourist product base was an important driver of tourism FDI into the country. Farrel (2000:185) notes that familiarity and closeness such as trade and tourism links is an essential factor when considering to invest in a foreign country as it helps in lowering transactional and information costs. This could also explain why most developed countries prefer to invest in countries that are culturally similar to their home country (Barclay, 2000:53; Navaretti *et al.* 2004:134).

Snyman and Saayman (2009:52,55) found that the competitiveness of a destination is a major factor for tourism FDI. Bianchi (2002:290) also argues that countries that are too poor to provide basic tourism infrastructure may not even be considered by foreign investors.

Nsiku and Kiratu (2009:16) found that 80% of the foreign investors they interviewed in Malawi would still have invested in the country even if there were no investment incentives. This is in agreement with what most researchers found - that investment incentives on their own do not necessarily attract investment (Resmini, 2007:219; Michalet, 1997:17; Pham, 2004:11; Wei & Balasubramanyam, 2004:2).

Table 4.12 shows that, in the Malawi survey, privatisation / public-private partnerships, tourist receipts, growth of international travel to Malawi, tourist product base and historical / personal links with Africa rank highly as components of competitiveness factor.

The South African survey identified privatisation / public-private partnerships, historical / personal links with Africa, harbours, incentives offered by government and local market size as important factors. Only two factors; privatisation / public-private partnerships and historical / personal links with Africa were found to be also important factors. Investors in Malawi felt incentives, which featured as important in the South Africa survey was not that important as its was not easily accessible (see Section 3.6.6). In addition, market

size is not rated important in the Malawi survey as the country's market is very small considering that it is a very poor country (Kazembe & Namizinga, 2007:13).

4.5.2.15 NATURE FACTOR

Nature is the final determinant, which is made up of wildlife, big five, scenery and climate.

Table 4.10 ranks wildlife, big five, scenery and climate in order of their importance as factors and contrasts the South African survey, wildlife and big seven were considered important factors influencing the tourism FDI decision These results were similar to those from the Malawi survey.

4.5.3 FACTOR CORRELATION MATRIX FOR THE MOTIVATION FACTOR

A correlation matrix was developed for the five factor groups and Perception and infrastructure, which the survey found to be the most important factor influencing the FDI decision in Malawi because it explained 20.94% of the variance, was considered as the motivational factor. Computations of matrix correlations are presented in Table 4.11 below:

Table 4.11: Factor Correlation Matrix between key factors for the

Perception and infrastructure factor

Factor	(1)	(2)	(3)	(4)	(5)
Perception & infrastructure (1)	1.00	0.323	0.578*	-0.146	0.196
Government & policy (2)	0.323	1.00	0.448*	0.147	0.471*
Economy (3)	0.578*	0.448*	1.00	-0.135	0.152
Competitiveness (4)	-0.146	0.147	-0.135	1.00	0.099
Nature (5)	0.196	0.471*	0.152	0.099	1.00

Notes: **Statistically significant on the 10% level

Table 4.11 shows that there are statistically significant correlations between factor 1 (Perception and infrastructure) and Economy (Factor 3), and between Nature (factor 5) and Government policy. There is also significant correlation between Government policy and Economy, Perception & infrastructure (factor 1) and Competitiveness (factor 4). Lall (1997:22) notes that a well managed economy inspires investment. Kikeri *et. al.*

(2006:102) maintain that government's deliberate policy to zone land for tourism development can help boost FDI in a country. Safakli (2005:15) also argues that the national physical and tourism Master plans are important for attracting FDI to a country.

A similar survey by Snyman and Saayman (2009:55) found significant correlations between Government & policy and Economy. However, differences in the other relationships could be attributed to the difference in the level of economic development between the two countries. For example, the Malawi survey found relatively strong correlation between Economy and Perception & infrastructure. Obviously the level of a country's infrastructure development is directly related to how well the economy functions. Bianchi (2002:290) argues that countries that are too poor to provide basic tourism infrastructure may not even be considered by foreign investors.

Furthermore, Table 4.11 indicates relatively strong correlation between Government & policy and Economy, the latter being affected by the former, and Perception & infrastructure and Competitiveness which confirms that the way a country is perceived affects its competitiveness to attract FDI. Snyman and Saayman (2009:52,55) found that the competitiveness of a destination is a major factor influencing the tourism FDI decision.

However, Table 4.11 indicates that there is a negative correlation between Competitiveness and Perception & infrastructure, and Economy of -1.46 and -1.35 respectively. In addition, Competitiveness as a factor group also shows a low and statistically insignificant relationship with Government & policy (0.147) and Nature (0.099), which shows that there is no correlation between Competitiveness and the other factors.

4.6 COMPARISON OF DESCRIPTIVE STATISTICS AND FACTOR ANALYSIS RESULTS

Descriptive and Factor Analysis of the results are compared in Table 4.12 below:

Table 4.12: Comparison of Descriptive Statistics and Factor Analysis Factor Ranking Methods: Top 5 Factor Items

Factor Group	Top Five Factors		
	Rank	Descriptive Analysis	Factor Analysis
Economy	1	Market size & growth	Market size & growth
	2	Interest rates	Volatility of currency
	3	Economy of Malawi	Economy of Malawi
	4	Expected high returns	Financial Markets
	5	Inflation	Inflation
Perception & infrastructure	1	Protection of investment	Political stability
	2	Labour unrest	Availability of banks
	3	Availability of water	Tourism investment information
	4	Tourism investment information	Level of unrest / disturbances
	5	Logistics	Malaria
Government and Policy	1	Labour law of Malawi	Bureaucracy
	2	Tourism as priority	Labour law of Malawi
	3	Government expenditure on tourism	Environmental legislation

Factor Group	Top Five Factors		
	Rank	Descriptive Analysis	Factor Analysis
	4	Bureaucracy	Government expenditure in tourism
	5	Labour costs	Tourism as priority
Competitiveness	1	Tourist receipts	Tourist arrivals
	2	Tourism product base	Tourism product base
	3	Average room occupancy	Average room occupancy
	4	Tourist arrivals	Historical / personal links with Africa
	5	Availability of raw materials/ natural resources	Entrance to African markets
Nature	1	Scenery	Climate
	2	Climate	Big five
	3	Big five	Wildlife
	4	Wildlife	Scenery

4.7 COMPUTATION OF GROUP FACTOR MEAN VALUES

Means of each factor group were arrived at by computing average means of individual items from each factor group. The results appear in Table 4.13 below:

Table 4.13: Factor Mean Value

Group	Factor	Mean
1. Nature	Scenery	1.94
	Wildlife	2.03
	Climate	2.17
	Big five	2.60
Mean of Means		2.19
2. Economy	Interest	1.49
	Market size and growth	1.51
	Volatility of currency	1.71
	Expected high returns	1.71
	Financial markets	1.77
	Profitability of lodge / hotel	1.77
	Inflation	1.77
	Economy of Malawi	1.80
	Mean of Means	
3. Competitiveness	Tourism receipts	1.51
	Tourism product base	1.60
	Average room occupancy	1.74
	Availability of raw materials / natural resources	1.86
	Proximity to markets	1.86
	Business confidence	1.86
	Level of trained staff	1.94

Group	Factor	Mean
	Government incentives	1.94
	Privatisation / public-private partnerships	1.97
	Tourist arrivals	1.97
	Local market size	2.0
	Entrance to African markets	2.09
	Location	2.26
	Historical / personal links with Africa	2.43
Mean of Means		1.93
4. Perception & Infrastructure	Level of unrest / disturbances	1.83
	Crime	2.23
	Political stability	2.14
	Level of corruption	1.63
	Growth of international travel to Malawi	1.94
	Terrorism	2.43
	Foreign exchange	1.71
	Legal rights	1.80
	Availability of banks	1.77
	Availability of fresh water	1.46
	Improvement of constitutional negotiations	1.91
	To improve health	2.66

Group	Factor	Mean
	HIV / AIDS	1.69
	Availability of roads	1.86
	Location of airports	1.69
	Malaria	2.46
	Labour disturbances / unrest	1.43
	Investment information	1.63
	International tourism promotion	1.69
	Protection of investments	1.43
	Logistics	1.60
Mean of Means		1.86
5. Government & Policy	Labour law of Malawi	1.57
	Tourism as a priority sector	1.66
	Labour costs	1.69
	Government expenditure	1.77
	Bureaucracy	2.11
	Diplomatic ties	2.34
Mean of Means		1.91

In the Malawi survey, the five factors were ranked based on mean values as appearing in Table 4.13 above. The first was Economy (1.70) which had the lowest mean value followed by Perception and infrastructure (1.86), then Government and policy (1.91), Competitiveness (1.93) and finally Nature (2.19) which had the highest mean value. These findings are not very different from Snyman and Saayman (2009:55) on the first two factors, where Economy was found to have the lowest mean value of 1.94, followed by Perception and infrastructure with a mean value of 1.96. However, they found Nature

to have the third lowest mean value of 2.4 followed by Government and policy with a mean value of 2.61 and finally Competitiveness with a mean value of 2.88.

The factor analysis found the above mean values which were used to rank the five factors. The average mean of the factors were put on a Likert scale with those close to 1 considered very important and those close to two considered important. Average means falling beyond two would be considered average. In this regard, the factor with the lowest mean value, that is, Economy with a mean value of 1.7 was deemed to be the first and Nature, with a mean value of 2.19 was deemed to be the highest and hence the least important factor.

Table 4.13 above ranks factors based on factor groupings based on an analysis of the survey data. The table also shows the relative rank of items in each factor grouping.

4.8 SUMMARY

A factor analysis on 55 statements from a questionnaire was conducted using SPSS version 16.0. Since the survey questionnaire is modelled on the one used by Snyman and Saayman (2009), the survey used five groups of determinants. These were Economy, Perception and infrastructure, Government and policy, Competitiveness and Nature.

Under each key factor, at most five items were ranked and identified important as factors needing further investigation. In addition, the factors were ranked according to mean values with the Economy factors taking the lead with a mean value of 1.70, followed by Perception and infrastructure at 1.86, then Government and policy at 1.96, Competitiveness with a mean value of 1.98 and finally Nature at 2.19.

Economic factors that were identified included economy of Malawi, market size and growth, volatility of currency, interest rate, expected high returns. Perception and infrastructure factors items included availability of roads, crime, logistics, tourism promotion and business confidence. Government and policy factor items included government expenditure on tourism, environmental legislation, diplomatic ties, labour law of Malawi and bureaucracy. Competitiveness factors included privatisation / public-private partnership, tourist receipts, growth of international travel to Malawi and historical / personal links with Africa.

This chapter therefore reports on the findings of the survey which seeks to identify key factors influencing FDI decision into the Malawi tourist accommodation sector. It also

discusses how the data was analysed by using factor analysis and also linked the findings to literature on FDI and Malawi's investment climate.

Chapter 5 will present conclusions and recommendations made regarding FDI into the Malawi tourist accommodation industry. It will also propose a number of areas for future research.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Tourism is arguably the largest industry in the world, accounting for nearly a third of total global service trade in 2004 (Debbage & Galloway, 2009: 582). The World Tourism Organisation (quoted by Mihalic, 2002:92), also notes that tourism is one of the top five export categories for 83% of all countries and the main source of foreign currency for at least 38% of the countries (Debbage & Galloway, 2009:585). UNCTAD (2007:6) further maintains that tourism is an activity where capital, knowledge and access to global marketing and distribution chains are critical. FDI is considered one of the most effective engines for harnessing these elements.

About 75% of global FDI flows are in developed countries (Benson & Clay, 2003:7 & Gallagher & Zarsky, 2007:15). Wong and Baum (2006:97) argue that the main reason that developing countries attract tourism FDI is to acquire technology and marketing skills which are scarce in these countries. However, Kumar (1998:190) and Mugabe (2004:82) found that other developing countries have also become major sources of FDI for fellow developing countries as they account for 35% of total global FDI inflows. Kumar (1998:190) and Mugabe (2004:82) found that other developing countries have also become major sources of FDI for fellow developing countries. Developing countries account for 35% of total global FDI inflows. Therefore developing countries struggling to attract FDI from the traditional sources may have to consider looking towards fellow developing countries.

According to Salisu (2004:178) the main determinants of FDI, though interrelated, can be grouped into three: those related to the objectives of the prospective foreign investors (firm specific), those related to FDI policy framework of the host country (country specific) and those related to economic and business climate of the host country (location specific). Several researchers (Lee, 2002:96) found that different types of FDI have different determinants.

Chapter 5 discusses two main areas: literature review, and findings and analysis of the survey data. It provides answers to the research question raised in Chapter 1 which is: What are the key factors that influence the FDI decision into the Malawi tourist accommodation sector? In addition, the chapter will also summarise key factors

considered by investors when undertaking FDI into the tourist accommodation sector which were discussed in Chapters 2 and 3. It will also provide major findings of the Malawi survey which sought to identify key factors influencing the FDI decision in the Malawi tourist accommodation sector.

The chapter will further make recommendations to government, industry and the tourism sector in general regarding factors influencing the FDI decision. It will also make recommendations on areas for future research and/or a follow up study.

5.2 CONCLUSION FROM THE LITERATURE REVIEW

Chapters 2 and 3 provide extensive discussion on the literature review on general and tourism-specific factors influencing the FDI decision and the Malawi investment climate respectively. The two chapters achieve the two objectives of the survey outlined in Chapter 1 which were to analyse concepts and aspects pertaining to FDI and analyse Malawi's general and tourism specific investment climate respectively. Highlights of the literature review are as follows:

- Foreign Direct Investment (FDI) is widely considered a key ingredient for stimulating economic development and integrating an economy into the global economy (Section 1.1).
- In low income countries, FDI has become one of the major sources of investment capital and is also considered as one of the most important channels through which countries can access global finance (Section 1.1).
- The global hotel industry is dominated by hotel chains, the biggest of which continue to expand mainly through acquisitions and partnerships with other chains. However, the market share of major hotel multinationals is negligible, contrary to popular opinion. In 1998, it accounted for less than 20% of the world's hotel supply (Section 2.4).
- The hotel industry is basically made up of two elements, real estate and hotel operations. Hotels enter into business as investors in real estate management (Section 2.5).
- Factors influencing the FDI decision can be looked at from two perspectives; that of the prospective investor and that of the host country. The main factors considered by investors when undertaking FDI, though interrelated, can be grouped into three; those related to the objectives of the prospective foreign investors (firm specific),

those related to FDI policy framework of the host country (country specific) and those related to economic and business climate of the host country (location specific) Section 2.6.

- Factors that influence multinational corporations in the service industry to undertake FDI share relatively few similarities with those in the primary and secondary sectors (Section 2.6).
- Social and political stability are critical factors in attracting foreign investment in tourism, much more so than for any other sector. Local politics and culture have an impact in FDI flows into a country. Foreign investors in the tourism industry avoid politically risky countries as these would not guarantee certain hotel occupancy levels that would make the business economically viable (Section 2.5.3).
- Familiarity and closeness such as trade and tourism links is an essential factor when considering investment in a foreign country as this helps in lowering transactional and information costs. This could also explain why most developed countries prefer to invest in countries that are culturally similar to their home country (Section 2.5.4).
- Countries with good governance attract the most FDI and the protection of property rights generally has a positive effect on FDI flows (Section 2.5.6).
- In tourism, the nature of FDI tends to be influenced by the stage and level of tourism development and tourism specific assets (Section 2.5.6.).
- The ability of a tourism destination to attract foreign investment is influenced by political constraints and incentives, the resources and conveniences offered, market characteristics, political stability and the ability of the destination to market and promote itself effectively (Section 2.5.6.).
- Most of the investments in the Malawi tourist accommodation industry are by government, most of which were sold to the private sector. The Malawi government still has a significant investment in most major city centres and resorts. (Section 3.4).
- Malawi is faced with many challenges, which include inadequate infrastructure which makes it difficult to access tourist areas mostly in remote areas during the rainy season, lack of tourism sector specific investment incentives, inadequate awareness of the importance of tourism by communities and inadequate regulation of the sector (Section 3.4).

5.3 CONCLUSION FROM THE SURVEY FINDINGS

The study's main objective (Section 1.4) was to investigate both country and industry level factors that influence the FDI decision in the tourist accommodation sector in Malawi. Highlights of the Malawi FDI survey findings are as follows:

1. Most of Malawi tourist accommodation FDI came from South Africa, followed by the United Kingdom. These findings correspond with Malawi tourist arrival statistics which show South Africa as the major tourist source market with the United Kingdom coming in a distant second. The study found that the source of FDI directly corresponds with the source of tourists (Section 4.2). This also confirms a similar survey by Snyman and Saayman (2009:52) which also found that there is correlation between source of tourists and tourism FDI.
2. Based on the descriptive analysis given in Tables 4.1 to 4.8, the survey found that, under the Nature factor, scenery and climate are considered important factors by 72% and 71% of respondents respectively (Section 4.2.1).
3. Under the Economy factors, the Malawi survey found that market size (97%), economy of Malawi (94%), interest rate (91%), expected high returns (83%) and inflation (83%) were considered important factors in respondents' decision to invest in the Malawi tourist accommodation sector, in order of importance (Section 4.2.2).
4. The survey also found that under the competitiveness factor, tourist receipts (94%), tourist product base (92%), average room occupancy (86%), tourist arrivals (86%), availability of natural resources (80%), incentives and business confidence (80%) were considered important factors (Section 4.2.3).
5. Respondents found protection of investment (100%), labour disturbances / unrest (92%), availability of water (91%), availability of tourist investment promotion information (88%), logistics (86%) and level of corruption, HIV /AIDS and location of airports (83%) to be important factors under Perception and infrastructure (Section 4.2.4).
6. Under Government and Policy, respondents considered labour laws of Malawi (86%), tourism as a priority sector (86%), government expenditure on tourism and bureaucracy (77%), labour costs (73%) and industry charters as important factors (Section 4.2.5).
7. Factor analysis found Perception and infrastructure had highest number of loadings with political stability having a highest loading of 0.676 and foreign exchange with a

lowest loading of 0,339. In total, this explained 20.943% of the variance. Government and policy is the second factor with the highest loading of 0.646 for bureaucracy and labour costs having the lowest, of 0.364. In total, government policy explained 10.925% of the variance. Competitiveness was another factor considered with tourist arrivals having the highest loading and privatisation having the lowest, in total it explained 8.167% of the variance. This was followed by Economy with market size & growth having highest loading and the lowest being interest rate. Lastly, with 5.874% of the variance explained, the Nature factor has climate factor with highest loading and scenery with a lowest loading of 0.461.

5.4 RECOMMENDATIONS

One of the objectives of the study was to make recommendations to government and industry on relevant factors that investors consider when undertaking FDI in the tourist accommodation sector in Malawi. The study therefore makes recommendations in two areas Firstly, general recommendations made to government and industry with regard to factors influencing FDI into the tourist accommodation sector. Secondly, recommendations are made for areas for future study.

5.4.1 GENERAL RECOMMENDATIONS TO GOVERNMENT

The findings of this survey, based on the descriptive analysis, have a number of implications for the government of Malawi on investment policies and investment into the tourist accommodation sector in general. The following is recommended for government's consideration:

1. Government needs to note that improving investment incentives is not the be all and end all of attracting FDI into a country. The Malawi government has put incentives as its centre pin for attracting FDI, and yet research indicates that incentives do not necessarily attract FDI. There are many factors that investors consider before investing in a country, and incentives are only one of these. In addition, government needs to reduce bureaucracy, costs, ambiguity and uncertainty surrounding the incentives offered to foreign direct investors.
2. The process of developing strategies for attracting tourism FDI needs to be research driven and be a consultative process if they are to succeed in attracting the desired FDI.

3. Government needs to develop progressive labour laws and to treat tourism as a priority sector in its economic development plans as well as allocating sufficient funding for this sector.
4. Target FDI promotion in Malawi's main tourist source markets and markets with similar characteristics.
5. Full, and not partial, review of existing policies to accommodate foreign investors should be carried out in an integrated manner.
6. Increase the minimum FDI capital requirement in Malawi from US\$50 000 as this is not a sustainable investment that would bring economic benefits to an economy.

5.4.2 RECOMMENDATIONS TO INDUSTRY

For the tourist accommodation sector in developing countries to grow, the following is recommended:

1. Adopt equity FDI modes to ensure capital actually flows into an economy but also does not lead to economic leakages through management or franchise fees. Currently, most FDI involvement in Malawi is through management contracts and franchises which is a drain on the country's economy.
2. With high risks inherent in investment in tourism accommodation in developing countries, hotel consortia, joint ventures and dual use of structures could help reduce risk. Foreign investors are reluctant to invest in countries seen as risky.
3. When designing tourist accommodation structures, the industry needs to take into account the needs and culture of its main markets as this will ensure that needs of clients are met.

5.4.3 RECOMMENDATIONS FOR FUTURE RESEARCH

Based on the results of this study, the following research questions are formulated for future research:

1. Do multinationals from developing countries and developed countries look at the same factors when considering investment in a developing country?
2. What modes of FDI bring sustainable and optimum benefits to the tourism sector in developing countries?

3. To what extent does familiarity with a host country and diplomatic relations influence FDI?

6. APPENDIX

QUESTIONNAIRE

A)	GENERAL	
1.	Which is your country of origin?	
2.	How much did you invest in the Malawi tourist accommodation sector?	
3.	Was your investment in form of franchise, management contract, etc. (Please choose one)	<p>A. Management Contract D. Hotel Consortia</p> <p>B. Joint Venture E. Merger / acquisition</p> <p>C. Greenfield F. Franchise</p>

The following questions focus on investment you made in the Malawi tourism accommodation sector		
B).	Foreign Direct investment in the tourist accommodation sector	
4.	How much in US dollars did you invest in the tourist accommodation sector in Malawi in the past five (5) years?	
.5.	How much in US dollars to you plan to invest in the Malawi tourist accommodation sector in the next five (5) years?	

6.		To what extent do the following factors play a role in influencing the FDI decision in the Malawi tourist accommodation sector?				
		Very Important	Important	Average	Less Important	Not Important at all
6.1	Climate	1	2	3	4	5
6.2	Scenery	1	2	3	4	5
6.3	Location	1	2	3	4	5
6.4	Wildlife	1	2	3	4	5
6.5	Big 5	1	2	3	4	5
6.6	Malaria	1	2	3	4	5
6.7	Growth of international travel to Malawi	1	2	3	4	5
6.8	Infrastructure: availability of water	1	2	3	4	5
6.9	Infrastructure: location of airports	1	2	3	4	5
6.10	Incentives the Malawi government offers	1	2	3	4	5
6.11	Logistics	1	2	3	4	5
6.12	Local market size	1	2	3	4	5
6.13	Availability of natural resources / raw materials	1	2	3	4	5
6.11	Logistics	1	2	3	4	5
6.12	Local market size	1	2	3	4	5
6.13	Historical / personal	1	2	3	4	5

		links with Africa					
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	6.14	Privatisation/ public-private partnership	1	2	3	4	5
	6.15	Entrance to African markets	1	2	3	4	5
	6.16	Environmental legislation	1	2	3	4	5
	6.17	Institutions: availability of banks	1	2	3	4	5
	6.18	Institutions: legal rights	1	2	3	4	5
	6.19	Crime	1	2	3	4	5
	6.20	To improve health	1	2	3	4	5
	6.21	HIV/AIDS	1	2	3	4	5
	6.22	Political stability	1	2	3	4	5
	6.23	Industry charters (indigenous business empowerment)	1	2	3	4	5
	6.24	Bureaucracy	1	2	3	4	5
	6.25	Business confidence	1	2	3	4	5
	6.26	Proximity from tourist source markets	1	2	3	4	5

Political factors

	6.27	Improvement of constitutional negotiations	1	2	3	4	5
	6.28	Level of unrest /	1	2	3	4	5

		disturbances					
	6.29	Terrorism	1	2	3	4	5
	6.30	Diplomatic ties with organisation home country	1	2	3	4	5
	6.31	Level of corruption	1	2	3	4	5
Economic factors							
	6.32	Profitability of the lodge / hotel	1	2	3	4	5
	6.33	Market size and growth of the market	1	2	3	4	5
	6.34	Inflation	1	2	3	4	5
	6.35	Protection of investment companies	1	2	3	4	5
	6.36	Interest rates	1	2	3	4	5
	6.37	The economy of Malawi	1	2	3	4	5
	6.38	Expected high return	1	2	3	4	5
	6.39	Foreign exchange	1	2	3	4	5
	6.40	Proximity to developed economies	1	2	3	4	5
Labour factors							
	6.41	Labour costs (i.e. low and high skilled labour costs)	1	2	3	4	5
	6.42	Level of trained employees	1	2	3	4	5
	6.43	Labour unrest / disturbances	1	2	3	4	5

	6.44	Labour law of Malawi	1	2	3	4	5
Financial factors							
	6.45	Volatility of the currency (the Malawi Kwacha against the US dollar)	1	2	3	4	5
	6.46	Financial markets	1	2	3	4	5
	6.47	State of tourism economy					
	6.48	Tourism product base	1	2	3	4	5
	6.49	Government expenditure on tourism	1	2	3	4	5
	6.50	Tourist arrivals	1	2	3	4	5
	6.51	Tourist receipts	1	2	3	4	5
	6.52	International tourism promotional activities	1	2	3	4	5
	6.53	Average room occupancy	1	2	3	4	5
	6.54	Tourism as a priority sector	1	2	3	4	5
	6.55	Availability of tourism investment information	1	2	3	4	5
7.	Of all the above factors, which ones do foreign investors consider as the most important when undertaking FDI decision?						
8.	What can the Malawi government do to promote						

	foreign direct investment into the tourism accommodation sector?	
9.	What can the Ministry of Tourism do to promote foreign direct investment into the tourism accommodation sector?	
10	Any recommendations or suggestions?	

Thank you for your cooperation

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