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Foreign Direct Investment Links between South Africa & China

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Introduction

China became South Africa's biggest trading partner in 2009, when total trade between the two countries amounted to US\$14.1 billion (ZAR119.5 billion). China's appearance at the top of the rankings was partly due to the global recession, which affected trade levels of the industrialised countries far more than those of emerging markets. Germany had been South Africa's biggest trading partner up to 2008, when Germany-South Africa trade totalled US\$17.9 billion (ZAR148.3 billion), compared with US\$ 14.2 billion (ZAR 116.8 billion) between South Africa and China. But in 2009, South Africa's trade with Germany dropped 35.5 percent in US dollar terms, while trade with China rose marginally by 1.8 percent and China moved to the top of the rankings. But total trade between South Africa and China had grown by 26.5 percent per annum (in US dollar terms) between 2000 and 2009, so that it was only a matter of time before China became the country's largest trading partner.¹

The importance to South Africa of its trade relationship with China raises the question as to whether the foreign direct investment (FDI) relationship between the two countries is equally significant. While much has been written about China's growing investment presence in South Africa and in many other African economies, very little of this discussion has been based on detailed empirical analysis or been located explicitly within the theory of foreign direct investment. It is important to examine the FDI linkages not only quantitatively, but also qualitatively, in terms of their impact on economic growth and on the internationalisation of business in the two countries. This paper investigates these issues looking at the FDI links in *both* directions between China and South Africa.

The paper has two parts. Part A examines the size and structure of the bilateral FDI relationship between South Africa and China. Section I reviews the estimates provided in the literature regarding the size of the relationship. Section II reviews the FDI policies of the two countries, on both inward and outward FDI. Section III examines official data from both countries on the value of FDI stocks and flows between them, and Section IV assesses the importance of the bilateral relationship to each partner by contextualising it within the two countries' overall FDI stocks and flows, also using official data. Sections V through VII turn to firm-level data from The EDGE Institute FDI Database, a living database with verified data on firms' cross-border operations. Section V reports on the number of firms and their sectoral distribution, while Sections VI and VII discuss firms' dates of entry and mode of entry respectively. Section VIII concludes Part A of the paper.

Part B presents case studies of two sectors in which the China-South Africa FDI relationship is prominent: assembly of home electronic appliances ('brown goods') by Chinese firms in South Africa, and financial services in both countries. The case studies use firm interviews and extensive documentary analysis to examine both the internationalisation process of firms from the two countries as well as the broader economic impact within the two economies of their FDI relationship. The discussion is framed by the analytical questions and policy challenges raised by the growing importance of 'South-South' FDI, of which the China-South Africa link is an example.

PART A. THE SIZE AND STRUCTURE OF SOUTH AFRICA AND CHINA'S FDI RELATIONSHIP.

I. Review of the literature

This section looks at the rapidly growing body of material discussing South Africa's economic and political relationship with China. All this material has been produced in South Africa, predominantly by international relations specialists. It contains almost no detailed discussion of direct investment and its impact: only two articles focus on the issue, one a news article (Bowker, 2008) and the other a flawed research article (Guliwe & Mkhonta, 2009).²

Though many writers provide quantitative data on the FDI relationship, presented in Tables 1 and 2 below, there are a wide range of disparate and inconsistent figures, with several papers providing more than one estimate without attempting to reconcile them.³ None of the quantitative data is *credible*, because no author discusses their source(s). Where data sources are identified, they are mainly politicians or diplomats. These cannot be relied upon: in 2008 the PRC Ambassador in South Africa presented figures which were then six years old and almost certainly wrong in 2002.⁴ It is astonishing that not a single author presents the official data collected by either government, as is done in Section III below. None of the authors explicitly distinguishes between FDI flows and stocks. The relatively modest UNCTAD (2007) estimate in Table 1 stands out as the only one within the range which this paper suggests is accurate.

The firm-level data presented in the literature is similarly of limited value. As indicated in Tables 1 and 2, the common view appears to be that at the end of 2002, there were 80–100 Chinese 'projects' in South Africa⁵ and about 200 South African 'projects' in China. No author tries to verify the total number of firms, individual projects or the continued presence of firms. The term 'project' is left undefined, and it appears that several authors do not distinguish between direct investment and trade. Many South African companies source products in China via contract manufacturing or imports from Chinese producers. But this is trade rather than FDI, and even the presence of a sales office reflects trade rather than FDI. An exhaustive examination of the foreign holdings of JSE-listed firms suggests that it cannot be credibly claimed that as many as 200 South African firms are *investors* in China, strictly defined as *owning* value-adding assets. Several authors provide brief descriptions of the activities in China of a few randomly selected firms, but none claim to present an exhaustive list.

As a result of these shortcomings, much of the information presented is erroneous, incomplete or outdated.⁶ The literature on the China-South Africa economic and political relationship is, in sum, not very useful in understanding either the size or the impact of the direct investment aspects of that relationship. Indeed the issue of the impact of investment is barely mentioned.

Table 1: Estimates in the literature for Chinese FDI in SA:

Year	Source	Estimate
2004	M Davies	84 Chinese SOEs
2005	Shelton	80 companies, more than \$200m; by 2003: 98 projects, \$160m
2006	Alves	R1.27b ~ \$200m ⁷
2006	Naidu	End-2002: 98 projects, \$160m; March 2004: 111 investors, \$111m; 2004: R500m ⁸ ~ \$72m; 2006: 187 companies, \$100m
2007	UNCTAD	46 projects, \$65.7m flow, 1999 – 2003; \$112.5 stock 2005 ⁹
2007	Shelton	by 2006, more than 80 projects, \$180m
2008	Shelton	by 2006, more than 80 projects, \$180m
2008	Zhong Jianhua (then PRC Ambassador in SA)	end-June 2002: 96 enterprises approved, \$190m contracted value
2008	Burke, Naidu, Negpen	\$112.4m flow (?) 2003-6; ¹⁰ \$600m; ¹¹ ‘a very small percentage of overall FDI in SA’ (page 8) ¹²
2008	Naidu	98 projects at end-2002; \$600m; ¹³ end-2006: \$200m;
2008	R Davies (then SA Deputy Minister of Trade & Industry)	More than \$2.1 bn ¹⁴
2009	Guliwe & Mkhonta	more than 80 companies since 1998, nearly \$6b

Table 2: Estimates in the literature for SA FDI in China:

Year	Source	Estimate
2005	Shelton	more than 200 projects; more than 70 projects, more than \$300m
2006	Naidu	end-2002: 206 projects, around 20 corporations; 2004: R4b ¹⁵ ~ \$575m
2007	Shelton	more than 200 projects, more than \$450m
2008	Shelton	more than 200 projects, more than \$450m
2008	Zhong Jianhua (then PRC Ambassador in SA)	June 2002, more than 200 projects, \$130m contracted value
2008	Burke, Naidu, Negpen	206 projects, \$500m, \$1.2bn, \$2bn, \$600-800m
2008	Naidu ¹⁶	206 projects, \$500m, \$1.2bn, \$2bn, \$600-800m
2008	R Davies (then SA Deputy Minister of Trade & Industry)	\$700m in 2006 ¹⁷
2009	Guliwe & Mkhonta	\$700m ¹⁸
2010	Jia Qinglin (senior Chinese political advisor)	End-2009: Chinese investment n SA \$950m; SA investment n China \$546m ¹⁹

II. The evolution of FDI policy in China and South Africa

This section looks at FDI policy, both inward and outward, in China and in South Africa.

(i) China’s outward FDI policy.²⁰

Up until very recently, “the policy framework dictated the evolution of China’s outward FDI” (Rosen and Hanemann, 2009:11). The period since economic reform in China began in 1979 can be divided into five phases, distinguished by the government’s policy priorities and regulatory approach.

- *Identification of the issue, 1979 – 83.* In August 1979, the State Council (Cabinet) released a document indicating that outward FDI (not named as such) was

one of 13 official policies for opening up the Chinese economy to the outside World (OECD, 2008). Projects were approved on a case-by-case basis by the State Council itself, and there was no policy framework as such. Conserving foreign exchange was a major priority. By 1985, 113 state-owned enterprises had set up foreign operations.

- *Initial regulation, 1984 – 1991.* In 1984 and 1985, regulations were published allowing enterprises (still restricted to state-owned) to apply for permission to operate abroad, as long as they had a suitable prospective JV partner.
- *Active outward FDI promotion, 1992 – 1999.* After Deng's southern tour which accelerated liberalisation and decentralisation in the Chinese economy in general, provincial and local governments could encourage enterprises to establish operations abroad, and there was limited decentralisation of the approval process. Central government was still concerned to husband foreign exchange and proposals above US\$1 million were required to receive State Administration of Foreign Exchange (SAFE) approval. From 1995, private enterprises were allowed to invest abroad. From the mid-90s, the government's stance began to shift from acceptance to active encouragement of outward FDI, and enterprises now received assistance (tax rebates and loans) when establishing foreign operations.
- *'Zou-chu-qu' (go out) policy, 2000 – 2005.* The slogan 'go out' was first adopted in 1998 to promote competitiveness, and it became a major focus following China's WTO accession in 2000. The 10th Plan of 2001-2005 listed outward FDI as one of the four key issues to promote China's globalisation, resulting in further deregulation of outward flows and higher thresholds for decentralised approval. There was also additional support for enterprises, including low-interest loans and risk insurance for enterprises acquiring resources or capabilities (R&D, technology and competitiveness) abroad.
- *Forex abundance, 2006 – present.* The 'go out' policy was re-affirmed in the 11th Plan of 2006-2010, and given China's huge foreign exchange reserves, the cap on the aggregate outflow of FDI was removed, though the capital account remains regulated and the yuan is not freely convertible. Project proposals are still evaluated individually.

(ii) Inward FDI policy in China.

China encourages entry by giving foreign firms preferential treatment vis-à-vis domestic firms, particularly in certain sectors (agriculture, infrastructure, high tech), activities (modernising machinery industries and public utilities) and regions (the west of the country). When Chinese economic reform began in 1979, one of the first laws passed was a Law on Joint Ventures (JVs) to enable inward foreign investment. JVs were encouraged in order to facilitate the transfer of technology and know-how to Chinese firms. At the same time the first four Special Economic Zones were established, giving foreign firms preferential tax and administrative treatment. In 1986, the '22 Regulations' reduced taxes and liberalised profit remittance controls. Wholly-owned subsidiaries were allowed only if they used advanced technology or exported most of their output (Branstetter & Lardy, 2006). As a result, in 2002 JVs (including co-operative enterprises) comprised 61.5 percent by value and 66 percent by number of projects of inward FDI stocks (Long, 2005).

During the 1980s, most FDI into China was cheap labour-seeking export processing from Hong Kong and Taiwan. During the 1990s, the sources of inflows became more diverse and overall inflows rose very rapidly from about \$5 billion in 1991 peaking at about US\$ 45 billion in 1997 when the Asian crisis hit. In 2001, following China's accession to the WTO, the restrictions on wholly-owned subsidiaries were removed and their numbers increased rapidly as overall inflows into China rose from about US\$ 40 billion in 2000 to US\$ 108 billion in 2008 (UNCTAD, 2009). Between 2002 and 2007, wholly-owned subsidiaries rose from 60 percent to 76 percent of the annual value of inflows (OECD, 2008: 14). At end-2007, wholly-owned subsidiaries comprised 49 percent of cumulative FDI stocks with JVs down to 46 percent (MOFCOM, 2009)

(iii) Inward FDI in South Africa.

The South African policy framework is largely *laissez-faire* regarding the entry *per se* of foreign firms – no official approval is required for foreign firms to enter the economy, except in a few sectors such as banking. Foreign investors are subject to the same laws and regulations as domestic investors.²¹ Policy interventions affecting corporate behaviour and performance are largely concerned with domestic redistributive aims and do not discriminate between domestic and foreign investors. For example, all firms in the mining sector must comply with a set of licensing and royalty requirements, which affects all greenfield operations, both domestic and foreign, while foreign entrants acquiring shares in already operating mines are unaffected. Firms must comply with Black Economic Empowerment (BEE, or affirmative action) policies and codes if they are in regulated sectors, (including mining), or are larger than a threshold size (in employment terms), or intend to bid for procurement contracts in the public sector and, increasingly, in the private sector as well. In some sectors, such as ICT, foreign firms have lobbied for and won concessions on BEE, allowing them to substitute actions such as promoting blacks into senior management or extending local procurement to black-owned suppliers, rather than extending black ownership as domestic firms are required to do. This has enabled foreign investors who prefer to hold 100 percent ownership of subsidiaries, to maintain this position.

(iv) Outward FDI in South Africa.

The only regulation of outward FDI is that South African residents, including corporations, are still subject to exchange controls, though these have been eased extensively though very gradually since 1995. The ceilings for taking capital abroad were progressively raised from ZAR20 million (US\$4.3 million) in 1997 to ZAR1 billion (US\$132.2 million) in 2003²² and then scrapped entirely in October 2004, though approval was still necessary for new investments. Since 2008, approval was required only for new investments above ZAR50 million (US\$7.75 million at the time) and in 2009, the threshold was raised so that now approval is required only for new investments larger than ZAR500 million (US\$59.25 million; SA Reserve Bank, 2010: C5). Companies investing abroad get no direct support from government, except for risk insurance.

III. South Africa-China FDI linkages: Official aggregate data

As already noted, it is extremely surprising that none of the literature to date has cited official FDI data from either country, that is, from the SA Reserve Bank or the Chinese Ministry of Commerce respectively. The official data is presented in Table 3 below for the years 2000 to 2008, the most recent available.

South African Reserve Bank (SARB) FDI data is broken down geographically only for stocks as at the end of each year. The SARB's data on inward and outward China stocks is in columns 1 and 2 below (in ZAR terms, as presented), while columns 3 and 4 convert the data to US dollars.

Columns 5 – 7 present the MOFCOM data in US dollars. Chinese FDI data is much more reliable from 2003 onward, when MOFCOM began to collect FDI data using international standards and to report more detail (OECD, 2008). Outward FDI is reported to almost all individual countries, but inward FDI only for selected source countries, unfortunately not including South Africa.²³

Comparing the data from the South African and Chinese sides reveals a startling picture of inconsistencies both between the two governments' data and also for each country's data over time. Columns 3 and 5 – the two official assessments of Chinese FDI stock in South Africa – should be identical. In 2003 and 2004 the figures were reasonably similar, but from 2005 they diverge significantly. The official Chinese assessment of China's FDI stock in South Africa at end-2007 is 10 times larger than the official South African assessment, but for end-2008, the South African figure is 20 percent larger than the Chinese one. It is hard to understand why MOFCOM's estimated of the *flow* of FDI into South Africa in 2008 is larger than its corresponding *stock* estimate for end-2008. Looking at FDI from South Africa to China reveals similar inconsistencies. Columns 4 and 7 are not directly comparable. But the South African Reserve Bank's stock data in column 4 rises at an implausible rate from 2005 onwards, while MOFCOM's flow data in column 7 suggest a much smaller order of magnitude.

There are a number of possible explanations for these disparities. To begin with, the methodologies used by the SA Reserve Bank and MOFCOM are quite different. The South African stock data is based on an annual survey of companies' balance sheets, broken down by country of ownership of assets and liabilities.²⁴ The survey method is the standard international approach for collecting stock data, but if the sample frame is outdated, it may omit many firms, especially recent entrants, and underestimate actual stocks, which appears to be the problem in the South African data up to 2007. This is likely to be a particular problem for source countries with a relatively large number of new entrants each year relative to firms already present, such as China in South Africa. Furthermore, the South African Reserve Bank allows companies to report their balance sheet data at either book value or market value²⁵, which can introduce inconsistencies into the aggregate values both at a point in time and over time. As market valuations change, the data can be volatile over time particularly where the flow is large relative to the stock, whether in terms of the number of new entrants or the size of their assets. This is illustrated in Table 3, column 4, between 2006 and 2008.

Table 3: Official FDI data, South Africa & China, 2000-2008

Year	SOUTH AFRICAN RESERVE BANK DATA				CHINA MINISTRY OF COMMERCE DATA			ZAR:USD, End of period
	SA FDI liabilities from China, stock ZARm	SA FDI assets in China, stock ZARm	SA FDI liabilities from China, stock USDm	SA FDI assets in China, stock USDm	China FDI assets in SA, stock USDm	China FDI assets in SA, flow USDm	SA FDI assets in China, flow USDm	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2000	109	0	14.40	0.00	n.a.	n.a.	n.a.	7.5685
2001	169	12	14.64	0.99	n.a.	n.a.	n.a.	12.1265
2002	219	19	25.35	2.20	n.a.	n.a.	n.a.	8.6400
2003	209	19	31.48	2.86	44.77	8.86	n.a.	6.6400
2004	319	19	56.66	3.37	58.87	17.81	109.40 (87)	5.6300
2005	340	4326	53.75	683.95	112.28	47.47	106.35 (67)	6.3250
2006	486	15894	69.73	2280.34	167.62	40.74	96.23 (68)	6.9700
2007	480	33353	70.48	4897.65	702.37	454.41	69.16 (38)	6.8100
2008	26760	29090	3645.28	3962.67	3048.62	4807.86	25.60 (22)	7.3410

Sources:

Columns 1, 2: SA Reserve Bank, *Quarterly Bulletin*, various issues; or obtained from Research Dept.

Columns 3, 4: Own calculations using Column (8)

Columns 5, 6: MOFCOM (2008, 2009)

Column 7: MOFCOM data provided to UNCTAD. Numbers in brackets are implemented projects.

Column 8: IMF, *International Financial Statistics*, various issues

In contrast, the MOFCOM stock data for outward FDI is based on approval and registration of FDI proposals, and contains possible sources of both upward and downward bias. It is not clear whether the data includes several categories: projects for which (private) firms' did not apply for official approval (OECD, 2008: 71); unrealised projects for which approval was given but which were ultimately not implemented; investment finance raised outside China; and additions to outward FDI stock from retained earnings of foreign operations. The OECD believes the net result is a downward bias in the Chinese data: Chinese OFDI stock data for OECD countries is on average 40 percent below the destination countries' data for inward FDI from China (OECD, 2008: 71). Turning to outward FDI flow data, the source is unclear, but probably the State Administration of Foreign Exchange (SAFE) approval and registration procedures for access to foreign exchange (OECD, 2008: 86). The flow data therefore also probably excludes unreported or 'unofficial' finance as well as externally-raised finance, resulting in underestimated FDI outflows.

Another problem, which plagues official FDI data in many countries, is that many companies 'route' their investments through third countries in order to obtain favourable tax or regulatory treatment, or to disguise the actual source or destination from host or home government. This is a well-known issue for Chinese FDI data, both inward and outward (Aykut & Ratha, 2004), but is also a problem with South African data.²⁶

In sum, neither the Chinese nor the South African official data is entirely credible. For this reason, it is not appropriate or useful to assess the capital account surplus/deficit between the two countries, and to set it alongside the current account to present a perspective of the overall balance of payments between China and South Africa.²⁷

Disaggregating the FDI data suggests that the South African data is probably a substantial *underestimate* for the stock of Chinese FDI in South Africa, and a significant *overestimate* for South African FDI stock in China. On the other hand, the Chinese data seems reasonably accurate for Chinese FDI in South Africa, at least until 2007, but a serious *underestimate* of South African FDI in China.

Looking first at Chinese FDI stock in South Africa, it is shown in detail below that there are fewer than 50 Chinese firms currently operating in South Africa. By far the largest in value terms is the Industrial and Commercial Bank of China (ICBC) following its acquisition in October 2007 of 20 percent of Standard Bank of South Africa in a deal with a reported value of US\$5.5 billion.²⁸

Next in size are six Chinese mining companies, amongst which the largest is Sinosteel, involved in two joint ventures, a 60 percent stake in ASA Metals and a 50 percent holding in Tubatse Chrome. ASA Metals, a chrome mine and smelter in Limpopo province set up in 1997 with unknown initial investment. In mid-2008, ASA Metals' CEO claimed ZAR4 billion assets under his control (Campbell, 2008), valuing the Sinosteel stake at ZAR2.4 billion (around US\$380 million). The operation had been expanded during 2006/7 but nonetheless - if the ZAR4 billion claim is accurate - it seems almost certain that this operation alone had a value greater than either ZAR340 billion or ZAR710 million (US\$112 million), the value of *all* Chinese assets in South Africa at end-2005 according to the SARB and MOFCOM respectively. Tubatse Chrome is a 50:50 operation with Samancor established in late 2006, implying it would have appeared in the 2007 data for the first time. Sinosteel's stake in Tubatse reportedly cost US\$230 million (ZAR1.57 billion at end-2007). This suggests that Sinosteel alone had assets in South Africa on the order of US\$600 million at end-2007. Three other Chinese mining companies – Zijin, Minmetals, and Jiaquan Iron and Steel (JISCO) – made investments between December 2005 and September 2007 of US\$16 million, US\$6.5 million and US\$30 million respectively, a total of US\$ 52.5 million²⁹. Adding these estimates suggests that Chinese assets in South Africa in mining alone were probably worth close to US\$700 million at end-2007. This suggests that MOFCOM's figure of US\$702 million was reasonably accurate, in contrast to the SARB figure of US\$70.

The figures for Chinese FDI in South Africa for end-2008 raise questions about this judgement, however: the MOFCOM figure seems very inaccurate and the SARB number the more plausible. Of course both figures are much higher than for end-2007, following the ICBC-Standard Bank deal. At end-2008, the market value of ICBC's stake was US\$3.86 billion, not far from the SARB's stock figure for Chinese FDI in SA of US\$3.645 billion, but suggesting that the SARB continued to undervalue Chinese mining assets in South Africa. The MOFCOM stock estimate is much lower at US\$3.049 billion, only US\$2.35 billion higher than the 2007 figure, suggesting that it is undervaluing the ICBC investment. This fits with MOFCOM consistently underestimating Chinese outward FDI stocks, but is hard to explain on the basis of the

factors causing underestimation listed above. Even more difficult to explain though is the MOFCOM measure for the flow into South Africa during 2008 of US\$4.8 billion, a fair accurate reflection of the size of the ICBC deal but more than twice the difference between MOFCOM's own 2007 and 2008 stocks.

Turning to South African FDI into China, the SARB only measured the stock properly from 2005 (see column 2). The data does not – or should not – include the Chinese assets of eight South African ‘émigré’ corporations which have investments in China but in the past 15 years have moved their headquarters and primary stock exchange listings from Johannesburg to London or elsewhere. Of the 25 ‘genuinely’ South African corporations present in China, only four had substantial assets at end-2008: Bidvest (logistics and infrastructure), Sappi (pulp and paper), Sasol (coal to liquid fuel and Naspers (IT/media). Bidvest acquired an Australian foodservices company with substantial facilities in China, Singapore and Hong Kong for US\$80 million in May 2007. Sappi purchased 34 percent of a paper mill in Jiangxi, China in 2006 for US\$60 million. Sasol lists assets in ‘the Far East’ of ZAR 2 billion (about US\$ 300 million) in its 2008 Annual Report. In addition, in November 2007, it approved US\$140m for its share of the feasibility study for two CTL opportunities in China in its JV with the Shenhua Ningxia Group. In its annual reports, Naspers lists only ZAR1.3 billion (approximately US\$190 million) of assets in Asia (China and Thailand) in March 2008, but it also owns 34 percent of IT company Tencent which at end-2007 had just under RMB7 billion in assets, equivalent to about US\$1 billion, making Naspers’ Tencent stake worth US\$350 million, and its total asset base in China US\$540 million. Aggregating these amounts (and assuming no double counting) gives a rough total for these four corporations of US\$1.12 billion, well short of the SA Reserve Bank figure of US\$4.9 billion at end-2007.³⁰ In contrast to the Reserve Bank’s apparent gross *underestimate* of Chinese assets in South Africa, its estimate of South African FDI assets in China appears to be a massive *overestimate*.

The explanation seems to be that the SARB has counted the market value of Naspers’ stake in Tencent (based on its Hong Kong Stock Exchange listing) rather than the book value of the underlying assets. At end-2007 Tencent’s market capitalisation was about US\$14 billion, making Naspers 34 percent stake worth just over US\$4 billion, and at end-2008, its share price had dropped about 17 percent from the start of the year, making Naspers’ stake worth about US\$3.35 bn.³¹ These figures added to those above for Bidvest, Sappi and Sasol brings us close to the SARB estimate for South African FDI stock in China at end-2007 and end-2008. But it does not seem appropriate to mix market values for assets with book values in this way.

This discussion underlines several measurement difficulties associated with aggregated macro-level FDI data. In addition, because it reflects only the single dimension of financial value, aggregated data has limited utility in assessing the impact of FDI on either host or home country economy. Even though firm-level data is hard to obtain, it is more useful for the latter purposes, as illustrated in Sections V – VII below.

IV. South Africa-China FDI linkages in the context of overall FDI

Before turning to firm-level data, it is worth locating the official data in the context of the broader picture of inward and outward FDI for each country. The implicit assumption here is that the bilateral SA-China data is not systematically biased in a *different* way than the data for the two countries' overall FDI stocks.³²

Outward FDI flows from China have risen from about US\$100 million *per annum* in the early 1980s to US\$2.3 billion *per annum* in the 1990s to US\$55.9 billion in 2008. This represents a compound annual growth rate of more than 26 percent since 1982. Table 4 presents the geographical distribution of China's outward FDI for 2003 (the first year for which reliable geographical data is available) and 2008. Total outward FDI stock of US\$184 billion at the end of 2008 remains small relative to both Chinese inward FDI stock of US\$916 billion and Chinese outward foreign *portfolio* investment of US\$253 billion at the end of 2008 (Chinadaily, 2010).³³ Chinese outward FDI is also very small as a share of global outward FDI: the latter totalled US\$16.205 trillion at end-2008, of which China's share was US\$148 billion, or a little under 1 percent of the global total. As an outward investor, China ranked 25th in the world at end-2008, behind both Austria and Brazil, and only 5th amongst emerging markets (UNCTAD, 2009).

Leaving aside the ICBC deal, South Africa's share of overall outward FDI from China was modest. Despite relatively rapid growth, South Africa received only 2 percent of China's outward flows and had 0.6 percent of its stocks in 2007, though this was a significant share of the African total. But in 2008, South Africa's share of outward flows jumped to 9 percent. In stock terms, South Africa ranked 18th in 2005, 14th in 2007 and 6th in 2008 amongst all countries as a destination for Chinese outward FDI.

The second set of rows in Table 4 re-calculates the percentage distributions after excluding Hong Kong, the Cayman Islands and the British Virgin islands, three destinations which received 76 percent of flows and had 80 percent of stocks in 2008. More than half of China's outward FDI is in Hong Kong, its Special Administrative Region, which is treated as a foreign destination in the MOFCOM/SAFE data. However, it is widely understood that much of the outflow from China to Hong Kong returns to China itself as inward FDI, in order to take advantage of benefits offered to inward investors but not domestic investors, in other words, a form of 'round-tripping'. It is estimated that about 20 – 30 percent of the inflow from Hong Kong is engaging in round-tripping (OECD, 2008), while Hong Kong undoubtedly also represents a 'third country' route for some outward FDI. In 2007, Chinese outward FDI flows to Hong Kong totalled US\$13.7 billion, while inward flows from Hong Kong to China totalled US\$27.7 billion. The Cayman Islands and British Virgin Islands, which overwhelmingly dominate Chinese direct investment in Latin America, are financial centres, so that investment into these locations may not be FDI, strictly speaking, but rather FII, foreign *indirect* investment, seeking financial assets in which to hold savings.³⁴ To the extent that these flows are foreign *direct* investment, they are being routed through the Cayman and British Virgin Islands for tax reasons to unknown third countries.

Once these three destinations are excluded, a very different perspective emerges on both the scale and geographical distribution of Chinese outward FDI, as illustrated in the lower half of Table 4. Although the growth of Chinese flows and stocks of outward FDI after 2003 is still extraordinarily rapid, their absolute size in dollar terms is rather low. Indeed, the end-2008 Chinese outward FDI stock (excluding HK, CI and BVI) is only US\$37.32 billion, well below total South African outward FDI stock of US\$63.09 billion (Table 5).

Table 4: Chinese Outward FDI flows and stocks, 2003 and 2008

	Flows		Stocks	
	2003	2008	2003	2008
Total, \$ billion	2.855	55.907	33.2	184.0
Percentage shares				
Asia	53	78	80	71
<i>of which: Hong Kong</i>	40	69	74	63
Africa	3	10	1.5	4
<i>of which: South Africa</i>	0.31	8.6	0.14	1.66
Europe	5	2	1.5	3
Latin America	36	7	14	18
<i>of which: Cayman Islands</i>	28	3	11	11
<i>British Virgin Islands</i>	7	4	2	6
North America	2	1	2	2
Oceania	1	3	1	2
TOTAL	100	100	100	100
Percentage shares excluding Hong Kong, Cayman Islands, BVI				
Total, \$ billion	0.69	13.64	4.34	37.32
Percentage shares				
Asia	52	36	45	41
Africa	11	40	11	21
<i>of which: South Africa</i>	1.28	35.25	1.03	8.17
Europe	21	6	11	14
Latin America	3	0	9	4
North America	8	3	13	10
Oceania	5	14	13	10
TOTAL	100	100	100	100

Source: MOFCOM 2008, and own calculations

Before the ICBC-Standard Bank deal, South Africa had become a fairly significant destination for Chinese FDI – South Africa received 5 percent of (adjusted) flows globally in 2007 and 3 percent of the stock, which rose to 35 percent and 8 percent respectively in 2008 after the bank deal. In absolute terms, the 2007 stock in South Africa of US\$702m ranked 10th amongst individual countries as a destination for Chinese OFDI (excluding HK, BVI and CI), the same order of magnitude as Indonesia (US\$679m). In 2008, South Africa ranked only behind Singapore and Australia.

Looking at Africa as a whole, its share of (adjusted) Chinese OFDI is far larger than its share of global FDI.³⁵ In 2007, Africa's share of (adjusted) Chinese OFDI was 19 percent and 17 percent of flows and stocks respectively, and in 2008, these rose to 40 and 21 percent. South Africa is of course the leading recipient in Africa, with 39 percent of the stock in 2008 (15.7 percent in 2007), followed by Nigeria (10.2 percent), Zambia (8.3), Sudan (6.8), and Algeria (6.5).³⁶

South Africa's position as an inward investor into China cannot be compared with that of other countries, because as noted above, MOFCOM does not provide data for inward FDI into China for South Africa or any other African country.

Table 5: South African inward and outward FDI stocks, 2003 and 2008

	Foreign FDI stocks in South Africa		South African FDI stocks outside South Africa	
	2003	2008	2003	2008
Total, ZAR billion	303.44	632.62	180.5	463.14
Total, US\$ billion	45.7	86.18	27.2	63.09
Percentage shares				
Asia	6.8	10.8	1.9	11.4
<i>of which:</i> China	0.07	4.2	0.01	6.3
Hong Kong	0.01	0.2	1.39	0.13
India	0.06	0.13	0.02	0.08
Rest of Africa	1.5	0.8	8.8	21.8
Europe	81.0	77.8	76.1	54.8
<i>of which:</i> UK	62.1	54.1	24.4	24.8
North & South America	10.6	10.3	9.4	7.4
Oceania	0.14	0.3	3.8	4.6
Total	100	100	100	100

Source: SA Reserve Bank, *Quarterly Bulletins*, various issues; data provided to author by SA Reserve Bank Research Department; and own calculations. USD:ZAR exchange rates: see Table 3.

Table 5 presents the SARB data for stocks of both inward and outward FDI in South Africa. The table shows that China became a significant investor in South Africa following the ICBC-Standard deal. In 2007, China had a mere 0.06 percent of foreign FDI stocks in South Africa, but in 2008 this jumped to 4.2 percent. The UK still dominates with other European countries and the US trailing far behind. China's share of South Africa's outward FDI stocks jumped from 0.01 percent in 2003 to 6.3 percent in 2008 (2007: 7.4 percent). As discussed above, the 2008 estimate may be substantially exaggerated, but if it is accurate, China has quickly become a very important destination for SA outward investment, ranked 3rd after Luxemburg (27 percent) and the UK (24.8 percent).

In sum, the official data indicates that the China-South Africa FDI relationship has not only grown very rapidly from a low base but is significant, for South Africa in both directions and for China in terms of its outward OFDI.

Because it is expressed in financial terms, the official data focuses attention on macroeconomic issues, and in particular on the savings and foreign exchange ‘gaps’ which are crucial in many developing countries, including South Africa. But data in this form cannot address many other important issues, such as the impact of FDI on host economy productivity, skills or technological capabilities, or the significance of the specific FDI operation on the investing firm’s internationalisation strategy, and that of home economy firms more generally. In other words, this data is of little help in evaluating the ‘quality’ of FDI, and in particular its impact on long-run growth in both host and home economies. These issues require analysis of *processes*, such as firm decision-making and firm interaction using firm-level rather than aggregate data. This will enable inferences about firms’ motives for investment (market-seeking or resource-seeking³⁷), about firms’ mode of entry (greenfield vs acquisition, JV vs wholly-owned subsidiary) and about the impact of foreign investments on home and host economies.

V. South Africa-China FDI linkages: Number of firms and distribution by sector

The next three sections use The EDGE Institute’s FDI Database, which focuses on inward and outward FDI between South Africa and the rest of the world, and is the largest (possibly the only) systematic record of FDI activity in South Africa. The database uses a definition of “foreign direct investment” which emphasises both value addition by the investing company in the host economy as well as ongoing resource flows internal to the investing company from home to host economy. The scope and construction of the database are discussed in more detail in the Appendix.

The EDGE FDI Database records more than 4100 operations of foreign firms in South Africa, of which only 47 (just over one percent) are Chinese. In addition, 19 Chinese firms have entered South Africa but subsequently withdrawn while 12 firms have signalled their intention to enter but are yet to do so, making a total of 78 Chinese firms recorded. The database also records over 3500 operations of South African firms (including ‘emigres’) in the rest of the world, of which a mere 32 are in China (also about one percent). Another 7 South African firms entered China but later withdrew, and there are 9 possible future entries, making a total of 48 firms.³⁸

The number of Chinese firms in South Africa is very small, given that there are over 2000 foreign companies present in South Africa. Nonetheless, it is consistent with China’s share in inward FDI stocks in South Africa (see Table 5), if the massive ICBC share in Standard Bank is excluded. The number of firms is also very small in the context of Chinese OFDI: MOFCOM data suggested that at the end of 2007, there were in total 7000 Chinese firms operating abroad, with 10000 overseas FDI operations (Rosen & Hahneman, 2009: 4). There is also a frequently-cited estimate of 750-800 Chinese enterprises operating in Africa.³⁹ A comparison with India is interesting as the India-South Africa FDI relationship began only in 1994 at the same time as the China-South Africa one. There are 93 Indian companies present as investors in South Africa, plus 36 possible entrants and 2 withdrawals.⁴⁰

Table 6: Chinese investment in South Africa: Sectoral distribution

Number of firms	Present	Possible Entrants	Withdrawals	Total	Percent (of Total)
Mining	6	3	1	10	13
Consumer goods	2	0	2	4	5
Materials processing	5	1	1	7	9
Automobiles	4	1	1	6	8
Electrical/electronic machinery	6	0	1	7	9
Other machinery	3	3	5	11	14
Infrastructure & construction	11	4	4	19	25
Finance & business services	6	0	1	7	9
Consumer services	4	0	0	4	5
IT/media	0	0	1	1	1
Unknown	0	0	2	2	3
Total	47	12	19	77	100

Source: The EDGE Institute FDI Database

Table 6 presents the sectoral distribution of Chinese investment. The firms are spread across all sectors, with the largest sectoral grouping in infrastructure and construction. Other sectors with five or more firms are the mining, automobile, electrical machinery and financial services sectors. The latter three will be discussed in more detail below. As discussed above, the mining companies present contribute substantially in *value* terms to Chinese FDI in South Africa. There has been much emphasis in the media and the quasi-academic literature on Chinese resource-based investment in Africa, and it is perhaps surprising that there are only six Chinese mining companies in South Africa, particularly as several dozen foreign ‘junior’ mining companies entered South Africa in the course of the global commodities boom between 2001 and early 2008. This suggests that Chinese firms may have found entry into the South African mining industry particularly difficult.

No Chinese firm appears to have entered South Africa to establish a platform for exports to developed country markets, which has been a common motive for Chinese firms seeking cheap labour resources in other developing regions.⁴¹ All five Chinese banks established a presence in South Africa to support trade and investment between China, South Africa and the rest of Africa, including providing services to existing (Chinese) clients, which can be understood as market-sustaining investment. Most of the remaining Chinese firms – three-quarters – appear to have entered South Africa for market-seeking purposes, selling into the domestic South African market as well as the regional Southern African market.

A significant example of market-seeking investment, and of the interaction between trade and investment, is the automobile sector. Five Chinese automobile firms are fully-fledged investors, that is, they have their own distribution and service network in South Africa. Two other firms were investors but withdrew in 2009 in the wake of the post-financial crisis recession, while two others have indicated an intention to invest. However, there are perhaps as many as 20 Chinese vehicle brands on South African roads, including trucks, two- and three-wheelers, tractors, mini-bus taxis and buses, in addition to regular automobiles. In compiling the EDGE FDI Database, it emerged that ten Chinese companies whose brands were sold in South Africa, were exporters rather than investors *per se*, selling to South African automobile

distributors, including three market leaders who distribute a wide range of brands (McCarthy, Imperial and CMH). The Chinese presence in the sector is fairly volatile. During early 2008, before the financial crash, several Chinese manufacturers publicly expressed interest in establishing assembly plants in South Africa with a view to selling into Africa. But in 2009, following the market collapse, at least three Chinese brands withdrew, though in July 2010, one of them returned. FAW, the large truck assembler, which entered South Africa in 1992, substantially expanded its distribution and service facility during 2010 and also announced plans to build an assembly plant. In contrast, none of the auto brands in South Africa from OECD countries or India showed any sign of withdrawing in the wake of the global recession.

Of the Chinese companies, 25 are state-owned enterprises (SOEs) and 13 are private, while the ownership of the other 9 could not be confirmed. However, as Wang (2007:19) points out, differentiating between SOEs and private companies “is growing more difficult – and less meaningful.” On the one hand, it is more difficult because many state-owned enterprises are listed on the Shanghai or Hong Kong stock exchanges or otherwise become fully or partially privately-owned. More importantly, though, the SOE-private distinction has become less meaningful as the number of large private firms in China has increased and SOEs have been allowed to act more independently, both in China and abroad. At the same time, the restrictions on Chinese firms’ outward investment have been eased and private firms have been able to access official support for foreign activities. The SOE-private ownership distinction remains significant for natural resource-seeking firms⁴², especially those exporting back to China, since it seems clear that the central government actively manages the process of securing raw material supplies to feed China’s industrial and infrastructural sectors, with large SOEs at the heart of its approach. But the SOE-private distinction seems of limited importance for market-seeking firms, which are the great majority in South Africa, since there seems to be no overarching central government policy objective applying to these. In the case of market-seeking FDI, it is probably useful to distinguish *within* the SOE category between central state versus provincial or local state ownership. The latter are subject to very limited control by the central state, even in relation to their domestic market activities within China (Marukawa, 2001), and cannot be understood as part of a coherent ‘China’ strategy.

It is also worth commenting briefly on the size distribution of the Chinese firms in South Africa, in that nine of the firms present (one-fifth) can be seen as ‘small’ in terms of parent company activities in China as well as their South African operations. Although it is more difficult to be certain, this also seems to apply to 12 of the 19 Chinese companies to have exited South Africa. It is possible therefore that failure abroad correlates with firm size.

Turning now to South African investment in China, Table 7 provides the basic data from the EDGE FDI Database. The number of firms is again very small: there are 32 South African firms in China of which seven are ‘émigré’ corporations no longer headquartered in South Africa, so that strictly speaking there are only 25 South African investors in China.⁴³ As with investment in the opposite direction, the number of firms is very small despite the large share of South African OFDI asset stocks in China (Table 5). In addition to those present, seven firms have withdrawn from China having invested there, while another nine have indicated possible future entry as investors.

Twenty five of the 32 South African investors are listed on the JSE, as are six of the seven which have withdrawn from China are listed on the JSE, and four of the eight possible future entrants. For comparison, 45 SA companies are investing in India while 3 entered but later withdrew. Of the 48 companies in India, 32 are JSE-listed and 15 are also operating in China, including 7 ‘émigré’ corporations.

Table 7: South African investment in China: Sectoral distribution

Number of firms	Present	Possible Entrants	With-drawn	Total	Percent (of Total)
Mining	8 (5)	0	2	10 (8)	21 (20)
Consumer goods	2 (1)	2	0	4 (3)	8 (8)
Materials	3	0	1	4	8 (10)
Machinery	4	0	0	4	8 (10)
Infrastructure & construction	6 (5)	1	0	7 (6)	15 (15)
Finance & business services	6 (5)	2 (1)	2	8 (6)	17 (15)
Consumer services	1 (0)	1	1	3 (2)	6 (5)
IT/media	2	3	1	6	13 (15)
Total	32 (25)	9 (8)	7	48 (40)	100 (100)

Source: The EDGE Institute FDI Database

Note: Numbers in brackets are numbers of firms on **strict** definition of companies’ South African nationality, where this differs from number of firms on **broad** definition.

Notwithstanding the very small size of the group, the sectoral breakdown of the South African investors in China reflects the strengths of the South African corporate sector. The largest representation is in mining, followed by infrastructure and construction, and finance and business services, all sectors which are well-developed in South Africa, with many corporations which have successfully internationalised. Several of the investors in China from other sectors can also be regarded as ‘national champions’, not in the sense that the firms have been actively promoted by the state, but rather that they have successfully internationalised. This group includes SABMiller (consumer goods), Richemont (consumer services), DiData and Naspers (both IT/media), Sasol (materials) and Barloworld (machinery).

Unsurprisingly, all but two of the 32 South African corporates in China can be said to have entered China as market-seeking investors, at least in part, though some, in particular the mining companies, are likely to export from China as well as sell in its domestic market. The South African presence in China’s mining sector is significant – in 2006 there were only 80 foreign investors in the sector (China Mining Association, 2007).

VI. Date of entry

Some perspective on the flow of FDI over time is provided by examining the date of initial entry of firms, though this must be treated carefully as many firms enter new markets via a modest initial investment to limit risk, and make a more substantial investment later after establishing a presence. Bearing in mind this qualification, Table 8 presents the year of entry for firms in both directions.

In the period before 1994, four Chinese firms invested in South Africa, which is remarkable given that apartheid had not yet been fully abolished, Chinese outward FDI was still in the early stages of liberalisation, and diplomatic relations between the two countries were not yet established. All four of the very early entrants were state-owned enterprises, though two were relatively small-scale enterprises owned by sub-national governments.

Table 8: Date of entry

	China in SA				SA in China			
	Present	With-drawn	Total	%	Present	With-drawn	Total	%
Up to 1994	5	0	5	9	5	1	6	16
1995 to 1999	12	7	19	33	3	1	4	11
2000 to 2005	11	1	12	21	16	3	19	50
Since 2006	17	4	21	37	8	1	9	24
Unknown	2	7	9	-	0	1	1	-
Total	47	19	66	100	32	7	39	100

Source: The EDGE Institute FDI Database.

Note: 'Withdrawn' refers to year of *entry* of withdrawn firms, not year of withdrawal.

Percentages based on totals *excluding* firms with unknown entry date.

Private firms were first allowed to invest outside China in 1996, and the largest group of firms, 19 of the 57 for which date of entry is known, came during the period 1995-99. It is surprising that such a large proportion of the firms invested so early, well before the 'go out' policy was adopted and active support for outward FDI put in place, but it may be explicable in terms of Chinese firms seeing Africa as an opportunity, a market neither saturated nor a major focus of other (western) foreign investment, and therefore potentially profitable. This is captured in the (more recent) slogan "Africa – the last place on earth to dig gold" (cited in Haifang, 2009), which may also reflect that Chinese firms' have a different perception of the risk of investing in Africa than the standard Western investor view that Africa involves high risk, if also high returns. According to Haifang (2009), the preponderance of Chinese aid to Angola has in recent years "convey[ed] a message to [the] domestic public [in China] that in Angola everywhere there is gold waiting to be dug; consequently many Chinese come with only basic construction skills and [little] knowledge of local society, but convinced that they could make quick money 6-7 times of that they could earn in China." The characterisation of South Africa in the Chinese media during the 1990s is unknown, but if it was in similar terms to these, it helps to explain early entry by Chinese firms. South Africa had the additional advantages (relative to the rest of Africa) of larger effective demand as well as learning opportunities in terms of

possible future entry to developed country markets, advantages which should have been self-evident to firms considering entry. It is worth emphasising that the bulk of the entry prior to 2000 was by manufacturing firms which were relatively small in Chinese terms and which established relatively small operations in South Africa.⁴⁴ Several entrants were linked with a single investment holding company, the Shanghai International Investment Corporation (SIIC) which itself entered South Africa in 1996. SIIC is owned by the city government of Shanghai, and appears to have had grand aspirations for its South African investment, reflected in its purchase of Shanghai House, a mansion-like low-rise office park in Sandton, Johannesburg's premiere financial and commercial district, which also became the headquarters of the China-South Africa Chamber of Commerce. Today, Shanghai House has but one small suite occupied by a Chinese firm, SIIC itself, with the rest of the space rented out.

The profile of firms in South Africa was typical of Chinese outward FDI at this time, when Chinese foreign affiliates were characterised as “weak, unable to take aggressive initiatives...[and] perform poorly” (Cai, 1999). For many of these firms, South Africa was one of the first foreign markets entered, and for some, ‘push’ factors towards internationalisation were important, particularly the intensification of competition in the domestic Chinese market, as in the case of home electronic appliance manufacturers, discussed in Part B below. Although the home electronics firms in South Africa have been reasonably successful, a very high proportion of early Chinese entrants to South Africa have withdrawn: of 35 firms which entered in 2001 or earlier, 15 have withdrawn, presumably because of failure of the South African operation. Of the 19 Chinese withdrawals from South Africa, 15 entered in 2001 or earlier. The South African experience confirms the view that many Chinese overseas operations lost money in the 1990s (Child & Rodrigues, 2005:387, citing Cai, 1999).

Since 2000 the ‘go out’ policy has led to the acceleration of outward FDI from China. Investment into South Africa received additional support from the signing of a bilateral investment treaty between the two countries in December 1997 and a double taxation treaty in April 2000.⁴⁵ With these in place, especially the latter, it is not surprising that the number of Chinese firms present in South Africa has more than doubled since 2000. During this period there has been limited entry by small manufacturing firms; instead, larger Chinese firms have entered, both SOEs and private, whose internationalisation strategy has differed from smaller firms. For some of these large enterprises, in the auto and telecommunications industries, internationalisation has been based on the advantages of huge home economy production facilities and sales networks, relatively mature production technologies, and especially substantial financial resources (Li Zhaoxi, 2009). South Africa was not an early internationalisation priority for most firms in these sectors, which have not invested in production operations in South Africa, but in distribution and marketing as part of global brand building strategies. The period since 2000 has seen a major expansion in the Chinese presence in South African mining with the doubling of Sinosteel's investment during 2006, and the entry of other mining companies as discussed above. Several major Chinese corporations have entered the banking and construction sectors.

Table 8 shows that investment into China from South Africa was limited before 2000. The early entries were predominantly market-seeking, which was perhaps unusual

given that most entry into China during this period was cheap labour-seeking (Branstetter & Lardy, 2006). But the number of firms is too small to draw any clear inference. Of the ten companies which entered before 2000, five were representative offices. Only two firms entered seeking access to cheap Chinese labour, one of which, Richemont, was both cheap labour-seeking (to grow tobacco) and also market-seeking, establishing its luxury brands in the Chinese market from 1992. Richemont now has 250 sales points in 41 Chinese cities. Probably the most significant South African entry during this period was SA Breweries, which entered in 1994 via a JV and is now China's second largest brewer. China was the second country SAB entered outside Africa. Dimension Data also entered China very early in its internationalisation, through the acquisition in 1997 of Datacraft, an Australian company with Chinese operations. Exxaro (then known as Kumba Resources, and an Anglo American subsidiary) entered in 1994 by establishing port facilities for the unloading of iron ore from its South African operation, before setting up a zinc refinery in Mongolia in 2000 with a number of JV partners. If there is a pattern to be discerned here, it is that internationalisation was a priority for early South African entrants to China – most were 'émigré' corporations during the late 1990s. The three South African banks which entered China during the 1990s were exceptions, and their early entry into China can be understood as 'market-sustaining'⁴⁶ rather than simply market-seeking, that is, aiming to provide corporate clients with a range of services globally, including trade finance.

As with the entry of Chinese firms to South Africa, the bulk of South African entry into China has taken place since 2000. The establishment of formal agreements between the two countries may well have played a role here, but as already noted, the South African companies are all market-seeking and the period since 2000 has seen the rapid acceleration of entry into China of market-seeking foreign investment, as China acceded to the WTO and Chinese growth accelerated.

As with the Chinese entries into South Africa, there have been a significant number of South African withdrawals from China. In some cases, this was clearly because companies had over-extended internationally, as they closed other foreign operations in addition to China. It is evident though that South African 'national champions', including 'emigre' corporations, have succeeded in China (and elsewhere), and this may be in part because they invested in China with a long-term perspective (Everatt, 2000; Moneyweb, 2006).

VII. Mode of entry

The mode of entry for FDI is important in relation both to firms' internationalisation strategies and in terms of impact on the host economy. On the one hand, host country regulation may limit entering firms' choice of entry mode. As noted, until 2000, China allowed wholly-owned subsidiaries only under certain circumstances, while South Africa's BEE regulations provide strong incentives to foreign investors in many sectors to enter JVs with domestic black partners.

On the other hand, if firms are free to choose their entry mode, those firms – such as the early Chinese entrants to South Africa – without strong ownership advantages or experience of operating in international markets but who hope to gain international

experience, are likely to opt for joint ventures or partial acquisitions over greenfield entry, to enhance the possibilities of knowledge transfer and learning. This is especially true for firms with little or no intellectual property to protect. But finding potential JV partners or acquisition targets, particularly prior to entry, requires some access to business networks in the host economy, and Chinese firms, especially small ones, are likely to have suffered from an especially burdensome ‘liability of foreignness’, that is, greater difficulties in establishing links with local firms due to language and cultural barriers (Child & Rodrigues, 2005).

Almost all the small Chinese manufacturers who entered before 2000 did so via greenfields, which are likely to have greater short-run impact in the host economy in terms of employment creation in particular. The high proportion of greenfield entry is unusual for South Africa – amongst foreign entries to South Africa between 1990 and 2001, only 31 percent were greenfields while 45 percent were acquisitions (Gelb & Black, 2004a). Of the 64 Chinese firms for whom entry mode is known, 36 (56 percent) were greenfields. Interviewed in 2002, several Chinese firms identified business networks as one of the three key resources they required for success in their South Africa operations, and a few were looking to establish JVs. JVs were more common amongst the larger Chinese firms which entered after 2000, particularly those in the auto, mining and construction sectors. It appears to have been easier for firms with more internationalisation experience to find local partners. This may suggest that the notion of the ‘liability of foreignness’ needs qualification – it may be negatively correlated with the duration of the relationship between the host economy and China, with firm size and with firm internationalisation experience.

Table 9: Mode of entry

	China in SA					SA in China			
	Present	Possible entrants	Withdrawn	Total	%	Present	Withdrawn	Total	%
Greenfield	27	1	8	36	56	13	4	17	45
Joint Venture	14	6	1	21	33	13	1	14	37
Partial Acquisition	4	0	3	7	11	5	0	5	13
Full Acquisition	0	0	0	0	0	1	1	2	5
Unknown	2	5	7	14	-	0	1	1	-
Total	47	12	19	78	100	32	7	39	100

Source: The EDGE Institute FDI Database

Note: Percentages based on totals *excluding* firms with unknown entry mode.

The South African firms in China are evenly divided between greenfield wholly-owned subsidiaries on the one hand, and joint ventures and partial acquisitions on the other. But 12 of the 17 greenfield entries (including withdrawals) are service operations in financial services and infrastructure (engineering). Although some of these are major South African corporations, their initial operations in China were small. Only 3 of the greenfields were set up as full-scale producers of goods and services immediately. Amongst the 14 JVs, 7 are in mining and natural resource material processing, in which JVs are common.

VIII. Conclusion

China has become South Africa's major trading partner but their FDI relationship is not as well developed as the trade link. Superficially, the FDI links have grown very substantially since 2007, but this has been driven largely by two investments: the purchase of a minority stake in South Africa's Standard Bank by Industrial and Commercial Bank of China, and the rapid rise in the market value of Tencent Holdings, the Chinese internet group partly owned by Naspers, the South African media multinational. These two investments have resulted in Chinese-owned assets becoming significant in the aggregate stock of foreign-owned assets in South Africa, and assets in China becoming significant in South Africa's aggregate stock of assets abroad. Because of the size of the ICBC deal, South Africa has become a relatively important location of Chinese foreign direct investment assets, especially if assets in Hong Kong and financial centres are excluded.

Whatever the relationship's financial significance, the number of firms from each economy investing in the other is very small, and the firms are thinly spread across many sectors, so that the FDI relationship is not 'dense'. Nor is the relationship 'pivotal', in other words, there is no significant sector in either economy in which firms from the other are dominant, individually or collectively. This general conclusion can be qualified to some degree. As explored in the case study below, Chinese assemblers dominate *domestic* production in the consumer electronics sub-sector in South Africa, though the major share of the domestic market is supplied by imports, and the sector cannot be regarded as significant. SABMiller is the second-largest brewer in China, but again the sector is of limited significance. Around 10 percent of foreign mining companies in China are South African, and Sasol is likely in future to be the leader in coal-to-oil processing in China.

Two points emerge strongly from the detailed firm-level analysis. The first is that for a large proportion of companies on both sides of the relationship, the other economy was an 'early' destination in the internationalisation process, in other words, one of the first foreign countries into which the company entered. This gives some support to the argument that (potential) investors from emerging markets evaluate the risks of operating in other emerging markets in a different way than investors from industrialised countries, with the former more willing to invest in emerging markets than the latter.

The second point is that a large proportion of companies entered the other economy but subsequently withdrew, implying a high rate of failure on *both* sides of the FDI relationship. In the case of Chinese firms' withdrawal from South Africa, many of the failures were small companies in light manufacturing industry, which entered South Africa via greenfields. And many of the withdrawals on both sides had entered before 2002, not only early in the relationship between the two countries, but perhaps more significant, early in the evolution of outward FDI from both countries. This suggests that failure, on both sides, may have been the result of poor risk assessment by the entering firm, perhaps a consequence of 'premature' internationalisation by firms in which 'push' factors may have played a part, such as heightened competition in domestic markets. This suggests that in seeking a distinction between 'South' and 'North' investors in terms of the probability of entry and relative benefits to the host

economy, it is important to look not only at entry, but also at the specifics of investors' ownership advantages and at their performance. Since 2000, there have been fewer failures, possibly reflecting the greater maturity of the corporate internationalisation process in both countries.

Finally, some policy recommendations can be spelled out, directed in particular at South African policymakers. The first is the need to improve FDI data collection and presentation. This has two aspects. One is the need for more accurate aggregate financial data on stocks and flows of FDI. The stock data need to be collected on the same basis from all companies, while flow data need to be disaggregated geographically. It would be valuable if official data on either side of important bilateral relationships were compared, so that large inconsistencies, as reported in this paper, were resolved. Then second aspect is the critical need for an official FDI database in South Africa at the firm level. Without this, it is difficult to formulate and implement policies intended to promote FDI, whether inward or outward, and to enhance the net positive impact on the South African economy.

A second policy recommendation, which is already receiving attention in South Africa, is the need for more focus on the *investment* dimension of the relationship with China (and indeed with other Asian countries as well), rather than the more or less exclusive attention given to trade issues in the past. This would be facilitated by improved data at the firm level which would draw attention to the small number of firms investing and to firm performance, whether good or bad. More focus on investment implies more active promotion not only of new investors in *both* directions, but also of the expansion of existing investments and the flow of knowledge in both directions, in other words, the range of activities carried out by foreign subsidiaries and the enhancement of skill levels and productive capabilities in South Africa. To enable these outcomes, appropriate support has to be provided by trade and other sector-focussed policies. In addition, government needs to actively encourage and facilitate co-operation between South African and Chinese firms, not only in the two economies but also in third markets. The financial services sector provides a very encouraging example of what is possible in this regard, and the resulting mutual benefits.

PART B. CASE STUDIES

I turn now to two sector case studies which go beyond the discussion in Part A of the overall FDI relationship between the two countries. The cases use detailed firm-level analysis, based on interviews and documents, to assess the motivations for firms' entry, their post-entry strategy and performance, and the impact of FDI on the sector and the host economy. The case studies will enable us to address not only policy issues for both South African and Chinese economies, but also some broader analytical issues with regard to the specificity of outward FDI from the 'South' and specifically 'South-South' FDI. Neither the analytical nor the policy issues can be adequately examined relying on data for the financial value of investments (as in the official data) or for the number of firm operations (as in The EDGE FDI database), because neither type of data can provide a full understanding of corporate strategic decisions or of the impact of an investment in the home or host economy.

The growth upsurge in China, India and other emerging markets over the past decade and more has been accompanied by a rise in outward direct investment from these economies, and a significant share of these flows have gone to other emerging markets. In the context of this rise in 'South-South' FDI, two sets of criticisms have been levelled at 'OLI' theory⁴⁷, the standard explanation of why and how corporations invest internationally (Dunning, 1988; Dunning and Lundan, 2008). First, using outward FDI from China to support their views, many international business analysts have argued that *outward* FDI from the 'South' is analytically distinct from outward FDI from the 'North', in that different factors shape 'South' firms' ability to internationalise and their decision to do so. Though not agreeing on all points, the common view is that the standard 'OLI' theory does not adequately explain outward investment by firms from China, or from other emerging markets, and new concepts and theory are needed (Child & Rodrigues, 2005; Matthews, 2006; Buckley et al, 2007). Critics argue that OLI theory assumes that firms internationalise on the basis of pre-existing ownership (or firm-specific) advantages, that is, assets which have been built within the firms' domestic market prior to internationalisation and which are implicitly assumed to provide *globally* dominant positions. For the most part, it is argued, Chinese (and other emerging market) firms do not have such global ownership advantages. Indeed, their internationalisation is largely intended to acquire such assets, by learning or by buying them - 'South' outward FDI is asset-augmenting rather than asset-exploiting. Critics of the standard approach also argue that the state is much more prominent in emerging markets than in industrialised countries, including in the internationalisation of 'South' firms, which unlike 'North' firms, is dependent upon state assistance, and in the case of Chinese firms, subject to state control.

One response to these arguments suggests that the calls for new theory may be the result of too narrow a focus on 'South-North' FDI without adequate consideration of 'South-South' FDI. Fornes and Butt-Philip argue that "little attention has been given to [China's] trade and investment relations with *less developed* countries...[or to] the *relative* value of Chinese firms' firm-specific advantages." (2008:17, emphasis added). A second set of concerns about standard theories of FDI is based on the argument that there is a distinction between 'North-South' FDI and 'South-South' FDI in terms of their respective impact on development in both host and home economies. Research on the 'first wave' of outward FDI from developing economies

yielded a set of hypotheses which use the standard OLI view to raise questions about the distinctive impact of ‘South-South’ FDI (Lall, 1983; Wells, 1983; Beausang, 2003; Tolentino, 1993; Gelb, 2005). This view, which is also adopted in this paper, argues for a further elaboration of OLI theory, rather than its outright rejection. In the standard OLI approach, entering firms’ key ownership advantages are proprietary brands and technology which have been successful in the home market and other foreign markets. Their ‘O’ advantages provide the entering firm with a competitive advantage relative to domestic firms in the host country, which is greater where the host is a developing economy and the entering firm from an industrialised country, since local firms are assumed to have less advanced technology and no global brands. But in the case of ‘South-South’ FDI, when both home and host are developing economies, the entering firm may lack globally-advanced brands and technology and may therefore have no ownership advantage in these assets relative to local firms.

The early literature on outward FDI from developing economies argued that ‘South’ entering firms did in fact have ownership advantages when entering other developing economies, at least relative to competitor entrants from the ‘North’. First, since technology involves not simply machinery and blueprints *per se*, but also the institutional and operating environment in which the machinery is used⁴⁸, the technology brought by ‘South’ investors’ into ‘South’ host economies may be better-adapted to local skill and technology levels than more advanced technology brought in by ‘North’ investors, and indeed more productive in the host economy context. Second, ‘South’ investors are likely to be more familiar with the difficulties posed by the business environment in ‘South’ host economies, where ‘missing’ markets and institutions raise indirect (non-factory floor) costs.⁴⁹ For both these reasons, productivity levels in subsidiaries of ‘South’ investors may be close to those of the parent firm in its home (developing) economy.

In other words, a ‘South’ investor’s lack of *global* ‘O’ advantages may be offset by its relative familiarity with the business environment in other developing economies. Two hypotheses can be derived from this discussion. The first is that when considering entry into the latter, ‘South’ investors may have a different calculus of risks than ‘North’ investors. In particular, ‘South’ investors may assess the risk/return trade-off a more favourably, leading to a greater likelihood of entry. Secondly, the smaller productivity ‘gap’ between home and host economies may offer greater potential spillover benefits for the host economy from the foreign investment. Needless to say, this point needs qualification in that spillovers will also depend to a considerable extent on sector-specific features.

Nonetheless, these two hypotheses, if supported by evidence, provide a case for greater policy priority to be given by ‘South’ governments to ‘South’ sources of inward FDI. This provides a second motivation for the sector case studies, over and above the analytical and theoretical issues discussed.

CASE STUDY I - CHINESE DOMESTIC ELECTRONIC APPLIANCES ('BROWN GOODS') ASSEMBLERS IN SOUTH AFRICA

The first case study examines the brown goods sector in South Africa, and in particular the production of TV sets. The case is motivated by the fact that in 2010, three of the five domestic producers in South Africa are Chinese firms.⁵⁰ These Chinese firms have produced in SA for 12, 13 and 17 years respectively, notwithstanding that the domestic industry has faced difficulties, like other parts of manufacturing in South Africa, and several firms, both South African and foreign, have withdrawn from local production during the period that the Chinese firms have operated in the country. The case study focuses on understanding how and why Chinese firms have been durable and profitable investors despite this decline. It investigates the content and nature of the 'O' (ownership) advantages of these Chinese firms, and their interaction with 'L' (location) factors in South Africa as well as the 'I' (internalisation) advantages which have encouraged these firms to have an investment presence in South Africa, as distinct from 'merely' exporting to South Africa. Identifying the existence of O, L and I advantages is important both for understanding these specific investments, as well as for assessing whether the OLI approach has value in analysing 'South-South' FDI more generally. Of equal importance is a policy question: is the impact of these investments in the host economy such that the South African government should be encouraging more Chinese investment, especially in the manufacturing sector, so as to enhance job-creation, skills transfer, manufacturing exports and consumer welfare? Finally, it is also important to ask whether potential Chinese investors would choose to enter, if the South African government were to encourage more FDI from China.

The three Chinese investors in the sector are all major electronics groups in China. The largest is HiSense, a partially state-owned company listed on the Shanghai Stock Exchange, which in 2006 was ranked 7th in the Chinese electronics industry, of which TV assembly is a sub-sector. Hisense was 116th in the world in electronics in 2006, and had a turnover of \$5.6 billion.⁵¹ At that time, it was producing in Hungary, France and Pakistan, but South Africa was the first foreign market in which it invested, in 1997. Next is SVA, owned by the Shanghai local government but also listed on the Shanghai stock exchange. SVA was ranked 10th in Chinese electronics in 2006 (160th in the world) with a turnover of \$3.4 billion. SVA was the first Chinese TV producer to enter South Africa, in 1993, and like HiSense, South Africa was its first foreign entry. By 2006, SVA was also producing in Bulgaria, Pakistan and Argentina. The third company is Xiamen Overseas Chinese Electronic Company (XOCECO), investing in South Africa as Sinoprime. XOCECO was established in 1985 and entered South Africa in 1999 via a JV. It was ranked 23rd amongst Chinese electronics firms in 2006 (288 in the world) with turnover of \$1.5 billion. In 2006, Sinoprime was also producing in Kazakhstan and Hungary.

Several questions immediately arise, which can be addressed using the standard OLI framework for analysis of foreign direct investment. First, why and how did these companies internationalise so 'early', that is, so soon after they were established and also so soon after Chinese outward FDI began? In other words, did the TV producers have ownership advantages which enabled them to invest abroad, and if so, what was the origin of these advantages? Secondly, why did they internationalise via direct investment rather than exports? In other words, what were the internalisation

advantages which led these firms to locate production abroad? Thirdly, why was South Africa one of the first countries they entered? In other words, what were South Africa's location advantages which encouraged investment in its TV/consumer appliances industry?

I. Reasons for internationalisation by Chinese TV assemblers: ownership advantages

The answer to the first of these issues – *why* did these firms internationalise despite being so young - lies in 'push' rather than 'pull' factors. In other words, intense competition in the TV assembly industry in China through the 1980s and 1990s encouraged firms to start internationalising from the early 1990s to absorb excess productive capacity and component inventories. The electronics industry had been established in the 1970s primarily for military reasons, when municipal governments were encouraged to set up local producers to ensure unbroken supply in case of war. Though many of these small producers failed, enough survived to make it impossible for the central government to impose its planning demands on the firms. The TV industry was highly competitive before economic reform began in 1978, and when market reforms such as price liberalisation began to be introduced, the autonomy from the central government of enterprises owned by sub-national authorities increased further. Enterprise autonomy was accelerated further by fiscal reforms introduced in the early 1980s to create a 'bottom-up' revenue-sharing system, whereby lower-tier governments contracted to pay a fixed amount of revenue to higher-tier levels and retain any surplus tax they were able to collect (Oi, 1992). This gave sub-national governments strong incentives to maximise revenue by pursuing economic growth at all costs, and to promote enterprises independently of central government policies and *diktats* if they identified market possibilities.

As a result of these reforms, as well as the rapid growth of consumer demand for cheap TV sets, the TV industry experienced a high rate of new firm entry throughout the 1980s, in both black and white (BW) and colour set segments, leading to extreme over-capacity, boom-and-bust cycles and severe price collapses. The central government tried – but failed – to consolidate the industry and reduce the number of firms, by regulating both production, particularly of key components such as cathode ray tubes (CRTs), and distribution. The explosion of consumer demand led to high levels of smuggling of both assembled sets and CRTs from abroad, as well as a large domestic black market as assemblers, component producers and retailers formed direct distribution relationships outside official channels. In sum, market forces ran rampant, forcing the government to abandon any attempt to plan or manage the industry after 1992. Competition then intensified even further and boom-bust conditions continued throughout the 1990s, as more domestic firms entered the industry and foreign firms now entered as well, especially from Japan. During the 1980s, Japanese companies had supplied the technology and machinery for TV production to Chinese firms but had not been allowed to produce and sell in China. By the end of the 1990s, the volatile conditions in the industry did produce the consolidation amongst producers which the central planners had desired: 80 percent of colour sets were produced by ten firms, and 80 percent of BW sets by five firms. But this was not achieved through the planners' own interventions and the firms they had selected to be the industry leaders and recipients of state support had mostly disappeared, while other firms dominated the market.⁵²

By 1990 China was the largest global TV producer in volume terms, producing over 25 million sets (Marukawa, 2001; Gao & Tisdell, 2004: Tables 8 & 9).⁵³ Nonetheless the volatile domestic market encouraged Chinese producers to look to the international market. The Chinese assemblers focussed on producing TVs for relatively poor consumers, and though they did not at that time produce key components, especially black and white CRTs, they had access to these products from domestic suppliers, which was a major advantage as they sought to penetrate the low-end BW market in other developing countries. Within China, demand for BWCRTs dropped dramatically from 1990 as consumer demand switched to colour sets, but production of BWCRTs continued to grow due to overcapacity. Allocation of BWCRTs through the central plan was abandoned in 1991 when their price was only one-third of its 1988 level.

The Chinese firms which entered South Africa were focussed on emerging markets, and did not try initially to break into developed country markets. They had no global 'O' advantages and lacked the technological and marketing capabilities to develop either leading edge products or high-end brands suitable for developed country markets. When they entered South Africa during the 1990s, their 'O' advantages enabled them to sell low-end products to poor consumers in markets similar to the Chinese domestic market. This reinforces a point made above: 'O' advantages are to be identified not in absolute or global terms, but *relative* to other firms in markets where entry is being considered or has occurred. In addition, the apparent dominance of push factors in these firms' decisions to internationalise suggests that explanations which focus only on 'O' advantages, which are pull factors, may not be complete.

It has not been possible to obtain information to explain why firms such as SVA, HiSense and XOCECO chose to internationalise via FDI rather than exports. Transport costs have been postulated as a factor (UNCTAD, 2007), but in the case of CRT TV production in South Africa, is unlikely to have been significant, since the costs of transport from China for a CRT and for a fully-assembled set were probably quite close. Two other Chinese firms – TCL and Shanghai Industrial Investment Corporation (SIIC) – did enter the South African TV market via export routes, and as discussed below, both were unsuccessful and withdrew.

II. The TV industry in South Africa: location advantages

The third question is why South Africa was the first country entered for HiSense and SVA, and either the first or second for XOCECO?⁵⁴ Though it is difficult to determine firms' strategies after such a long interval and in the absence of documentary evidence, the explanation appears to be that the entering firms considered South Africa's market potential as 'gold waiting to be dug'. In 1992, South African TV production was only 311 000 sets worth \$180m, with employment about 4000. South Africa was the 22nd largest producer of consumer electronics globally in 1990, though output was a mere 0.31 percent of global output (Baumann, 1995; 80-2).⁵⁵ But the domestic market was double this size, with total TV set consumption worth \$353m. South Africa was ranked 13th amongst importers of TV sets, and second-largest amongst non-OECD countries, after India. Furthermore the ending of apartheid and establishment of democracy was underway, implying that electrification of the housing of the urban black poor was imminent, and would create

a large new market for TV set purchases, especially of cheap sets at the lower end of the market.

Since 1990, South African market growth has been strong, averaging over 7 percent *per annum*, and a very rapid 27.5 percent between 2002 and 2006, when about 1.9 million sets were sold in South Africa (DTI, 2007). But demand growth has been met increasingly from imports, which grew just below 50 percent *per annum* between 2002 and 2006. domestic production grew 8.9 percent *per annum* during this period, which was much more rapid than GDP growth, but far slower than imports, so that domestic producers' market share fell from 66 percent to 35 percent by 2006. Exports are a negligible share of domestic production.

There have been two underlying problems in the local TV industry. Firstly, the South African domestic market is too small to enable production of CRTs and other components at minimum efficient scale, though this could be overcome through exports, if the industry were competitive. But secondly there is no technological capability to produce key components which comprise a high share of overall product costs. This problem results from the origins of the TV set industry in South Africa. The South African industry dates back to the early 1970s, like China's, and as in China, some of the domestic firms licenced in South Africa were military suppliers. The initial industry structure in South Africa was also determined by state economic planners, who aimed to ensure both that high-quality TV sets were available to South African consumers and that the TV industry contributed to a wider domestic electronics industry which was seen as strategically important. Unlike their Chinese counterparts, the South African planners were successful in imposing their strategy on the industry, but this was to its long-term detriment. At the outset, only six assemblers were licenced (later raised to eight), who consolidated into four local assemblers by 1984 (Baumann, 1995, 181). Rather than being plagued by chronic overproduction due to easy entry, as in China, the South African industry quickly became a virtual cartel, whose lobbying power maintained high tariff barriers against imports until the early 1990s.

Over and above the restrictive market structure, each producer was required by its initial licence to have a supply contract with a major European or Japanese firm for the supply of CRTs and other key components such as circuit boards. These contracts were intended by the South African government to facilitate technology transfer, but there was little apparent benefit in this respect, perhaps because the foreign suppliers were not compelled to make investments and produce in South Africa, but could meet their contracts by exporting. The foreign suppliers continued to enforce their contracts into the 1990s despite efforts to stimulate local component production. Since most of the value-addition in the TV industry occurs in production of a small number of key components and these were all imported into South Africa, the industry did not become dynamic. In 2009, it was estimated that domestic value addition was a mere 10.9 percent⁵⁶ of the product price (ITAC, 2009). Indeed, an industry application in 2006 for anti-dumping protection against cheap Chinese imports had been rejected by the South African government agency responsible on the grounds that domestic value addition was below the WTO threshold of 25 percent (DTI, 2007).

Trade policies exacerbated the industry's structural problems. The industry was heavily protected from the outset, with 100 percent import duties on both assembled complete sets and CRTs (Baumann, 1995: 180). The latter was intended to encourage local CRT production, but since CRTs comprised around 60 percent of product value, the high duty undermined the protection offered by the tariffs on assembled sets, and the price of locally assembled sets was about the same as for imported sets. Furthermore, trade policy alone was insufficient risk mitigation in the view of potential investors. Between the mid-1980s and mid-1990s, trade policy shifted several times, including a short-lived elimination of tariffs on CRTs⁵⁷ and the introduction of rebate schemes on other components. These policy shifts did not succeed in their aim of stimulating local component production and exports, though during the 1980s the four local producers considered setting up a joint CRT plant, as did the Korean producer Daewoo together with the South African conglomerate Anglo American (which was not an assembler)⁵⁸. But trade policy would have had to be complemented by other interventions to address investor risk, while local assemblers remained locked into foreign supply contracts, from which they needed government support to exit.

Tariffs on fully assembled imported sets were progressively cut from 100 percent in the late 1980s to 60 percent in 1989, 35 percent in 1995 and 25 percent by 2006. As a result, imports have grown rapidly, encouraged by local retail chains which began to seek lower-cost products abroad from the mid-1990s. Exchange rate policy since the early 1990s has mitigated against exports and import-competing activities. Although there has been overall depreciation, the exchange rate has been volatile, making it difficult to build sustainable export markets for manufactured products. Since 2002, there has been fairly consistent appreciation.

In sum, the TV industry reflects a familiar story in South African consumer goods manufacturing over the past 20 years: high-cost production due to small market size, severe competition from imports due to lowered tariffs on finished products and inappropriate tariff structure as well as poor border regulation⁵⁹, limited exports due to poor technological capabilities, all exacerbated by time-consuming labour relations⁶⁰ and inappropriate macroeconomic (especially exchange rate) policy. Notwithstanding all these problems, the domestic TV industry has been quite resilient, continuing to grow at a more than respectable rate, as noted above, even though its output comprises a falling share of the domestic market. Not surprisingly, growth was especially strong during the period when the economy as a whole and consumer demand grew most strongly, between 2002 and 2007.

III. The South African TV industry today

The structure and composition of the domestic industry has shifted since 1990, even though the number of producers in the economy has risen only from four to five. In 1990 three of the four assemblers were South African-owned. The first withdrawal was only foreign investor in the industry, the Dutch firm Philips, which closed its local production facility in 1996, citing the need to consolidate global production in fewer sites to lower costs. The second withdrawal was Amalgamated Appliances (Amap, originally Tedalex) which assembled Sony & Blaupunkt sets and in the late 1990s was the largest domestic producer, claiming 40 percent of domestic TV output. Amap invested heavily in 'completely knocked down' (CKD) assembly of CRT sets

and was slower than other local producers to shift to ‘semi-knocked down’ (SKD) assembly of flat screen TVs. In 2008, still producing only CRT sets which now comprised only 40 percent of the domestic market, it applied for additional tariff protection on SKD flat screen components. But though tariffs were raised in August 2009 (ITAC, 2009), Amap had already sold its Western Cape production facility and decided to restrict itself to distribution of imported appliances, sourcing mainly in China. The two surviving domestic firms from 1990 have become contract OEM manufacturers rather than holding local assembly and distribution rights for specific global brands. One is Vektronix, based in East London and the descendant of TEK (one of the original local manufacturers from the 1970s) via Plessey, Dimension Data and Tellumat, and finally a management buyout in 1998. The other is RC&C in Cape Town, the descendant of Barlows/Panasonic (another original local manufacturer from the 1970s), via Reunert. Another South African producer – Etron – which had produced OEM equipment for Samsung, closed its production facility in 2007, reportedly driven into bankruptcy by a demand from SARS, the tax authority.

Amap had sourced components for TVs and radios from China since the mid-1990s. From 1998 until 2005, its major supplier of CRTs and other key components was TCL, the Chinese TV producer which in 2003 became the world’s largest TV manufacturer through its acquisition of the TV business of the French company Thomson.⁶¹ TCL’s involvement in the South African market reflects the strengths and the weaknesses of Chinese TV producers’ efforts to internationalise. By entering South Africa via exports, TCL followed a different route from SVA, HiSense and Sinoprime, but its internationalisation strategy was based on similar ‘O’ advantages – low cost production in China of key components for TV sets sold in developing countries. TCL initially prioritised these markets where the less competitive environment facilitated product improvement and brand building. TCL’s first foreign investment was in Vietnam in 1998, which was quickly followed by investments in five other Asian countries, before it acquired a small German producer in 2002.

Between 1998 and 2003, TCL supplied CRTs and other components for 350 000 – 400 000 sets annually to Amap, which had a 40 percent market share. The TCL-Amap contract was renewed in 2003 for another five years, and at the same time, the company investigated upgrading its South African presence and investing in production. This did not occur, partly due to the lack of incentives from the South African government and partly due to TCL’s focus upon its Thomson acquisition which was happening at that time. In 2005, Amap cancelled its supply contract with TCL, on the grounds that TCL products had become ‘too expensive’ and its technology had fallen behind, especially in flat screens.⁶² It seems likely that these problems were linked to TCL’s acquisition of Thomson, which is seen retrospectively as one of the major failures of Chinese firms’ internationalisation (see for example, Deutsche Bank, 2006). It would appear that TCL greatly over-extended itself by shifting prematurely from an organic growth strategy via market-seeking investments in emerging markets to large acquisitions in developed countries.

During the mid-1990s when there was great optimism about the growth potential of the South African industry, there were a number of entries by firms from other Asian countries than China, in particular Korea and Taiwan. Many of these were small firms importing semi-knocked down (SKD) TV kits, with only the final stages of assembly done in South Africa. Dubbed ‘screwdriver operators’, they were seen by incumbents

as fly-by-nights taking advantage of tariff loopholes and poor customs regulation to import SKDs at lower CKD tariff rates. When the latter were raised in 1996/7, most of the new entrants disappeared. A more significant failed entry was the Korean conglomerate Daewoo, which entered in 1996 and sold its plant to HiSense in 2001, partly because of Daewoo's serious financial difficulties following the 1998 Asian financial crisis. Daewoo and Samsung now contract local producers, including at least one of the Chinese firms (SVA), as OEM manufacturers for their labels. A third Korean firm, LG, which entered the South African market in 1996, out-sources TV assembly to Kiota, an independent (but probably captive) producer in Lesotho. LG has put considerable resources into building its brand in South Africa, and claims 18 percent of the South African TV market and claims the largest market share in air-conditioners, computer monitors, microwave ovens, and front-loading washing machines. In 2009, LG was forecasting net revenue of \$600 million in South Africa across all appliance market segments.

The fifth Chinese firm to enter the South African TV market was the Shanghai Industrial Investment Corporation (SIIC) discussed in Section VI above, whose experience in the industry mirrors its broader trajectory in South Africa, which combined grand aspirations with poor risk evaluation and strategic planning. In February 1999, SIIC purchased 28 percent of Omega, a large South African appliance distributor listed on the Johannesburg Stock Exchange. Using loan finance from one of South Africa's 'big four' banks, SIIC paid R110 million for its stake, a premium of approximately 22 percent. Omega distributed well-known Japanese and German consumer electronics brands such as Telefunken, Aiwa and TDK in South Africa. During 1998, it had begun importing Chinese white goods, including Haier air-conditioners and fridges and Little Swan washing machines, which were not previously sold in South Africa. Omega also began to distribute fridges produced by another SIIC-linked company in South Africa, a small operation with \$5 million investment and 60 workers started in late 1998. At the time SIIC purchased its stake in Omega, there was a price war in the South African white and brown goods markets linked to low-cost imports from Asia brought in by retail chains, and over the two years 1998 and 1999, Omega made total losses of R97 million on turnover of R850 million. Probably as a result of competition (though this cannot be confirmed), Omega exited the TV distribution market in 2000, selling its Telefunken distribution rights to Nu-World, a South African distributor. In September 2001, SIIC purchased all the outstanding shares of Omega and de-listed it from the stock exchange. By 2006, the company no longer existed, though the date of closure is unknown.

IV. The Chinese producers in South Africa today

Notwithstanding SIIC's failure and TCL's aborted entry into the industry, the three Chinese assemblers still present have all expanded and diversified their operations in South Africa subsequent to entry. Their growth has occurred despite their being virtually ignored by the rest of the industry and by the South African government in trade policy processes.⁶³ The three firms have differed in their production and marketing strategies in South Africa, and also in their links with their respective head offices. But all three continue to benefit from the 'O' advantages (in relation to the South African market) with which they entered, notably the ability to import high-value components from their parent firms. In addition, visits to two of the three firms in South Africa underlined that overhead costs, as reflected in office fittings and

equipment, company vehicles and the like, were in line with Chinese norms, but very low in comparison to most South African firms. During the 1990s, in addition to entering other emerging markets, all three parent companies internationalised extensively *within* China, establishing multiple JVs with foreign multinationals. Since China's accession to the WTO in 2000 and the Chinese government's adoption of the 'go out' policy, the parent firms have pursued diverse global strategies intended to substantially strengthen their 'O' advantages in global terms, and their initial focus on emerging markets and low-end products has shifted to developed countries and high-quality products. It has not been possible to obtain clear evidence that the South African operations have contributed directly to the construction of global 'O' advantages, but this seems likely, at least in terms of lessons learned about brand-building and product distribution. This is particularly likely in the case of Hisense whose South African subsidiary is closely controlled by head office and presumably tightly integrated into its global strategy.

(i) HiSense

HiSense initially entered South Africa in 1997 with financial assistance from the same South African bank which financed SIIC's partial acquisition of Omega 2 years later. HiSense's initial investment was \$0.8 million, which increased to \$11.8 million by 2007 and \$31 million by 2009. In 2001, HiSense South Africa acquired the factory of the disinvesting Korean producer Daewoo for \$4 million, and at the same time imported a colour TV set production line from China, doubling its South African capacity to 200 000 sets *per annum*. It also began to produce DVD players and mini ovens. Its most recent expansion in 2008 again doubled its TV capacity to 400 000 sets and added capacity for 100 000 washing machines and 200 000 fridges. From 2006, HiSense imported flat screen TVs which in 2007 contributed about 10 percent of its turnover. In 2007, HiSense claimed a market share of 14 percent in TVs and ten percent in DVDs, though the TV share was probably closer to ten percent. Twenty percent of the company's South African output was exported to ten countries in the Southern African region. Growth in recent years has been rapid: turnover in 2006 amounted to \$47 million, which rose to \$60 million in 2008 and \$65 million for the first 8 months in 2009. Profit margins are low, about 2.7 percent of turnover, but this is about the same as the HiSense group as a whole.⁶⁴ Employment in South Africa is around 200 people of whom about 10 percent are Chinese expatriates. The HiSense management argued that (capital) productivity in South Africa was about half the level in China, partly because labour regulations restricted overtime and double-shifting. The 2008 expansion involved a move of the plant from Johannesburg to a peri-urban industrial zone 100 kilometres away, with lower labour costs and distance from the trade union offices being important factors in the move together with land costs.

Though South Africa was the first country in which HiSense invested, the local operation is now a very small part of the parent firm. Group global revenues rose by 21 percent *per annum* from \$1 billion in 1998 to \$7 billion in 2008, and South Africa now contributes only approximately one percent each of global turnover and global employment (about 22000 in 2008). This is in line with the South African share of turnover in other multinationals operating in the country.

Since the early 2000s, the company has accelerated its internationalisation, focussed mainly on developed country markets and relying on JVs as a risk-mitigation strategy. It entered the US in 2000, the EU in 2001 and Japan in 2002, in all cases establishing distribution centres for appliances imported from China. In the US, it established a JV in 2003 with a local distributor (as it had done the previous year in Japan) but it took a further two years (five years after the company's initial entry) before HiSense products were accepted by a major US retail chain. It established a production facility (a JV with a Singaporean company) to serve the EU in Hungary in 2004 and in 2005 acquired a plant in France to which it had previously outsourced OEM production. The European plants are not simply assembly operations - to meet EU regulations, 60 percent of the product value is added within Europe. In 2008, HiSense opened a new plant in Egypt with capacity about a quarter that of South Africa, its first emerging market entry for a decade.⁶⁵

HiSense has also focussed on building global strengths in both technology and branding. Technological leadership was an early goal. HiSense established its first R&D centre in China in 1993 and produced its first flat screen TV in 1998. It now employs 2500 engineers, around ten percent of its workforce, in R&D facilities in the Netherlands and the US as well as China. There were plans in 2004 to open an R&D facility in South Africa which were scrapped, apparently due to concerns about personnel safety. But the firm's R&D efforts have paid off: for example, in 2005 it became the first Chinese company to design and develop its own digital TV chip, suggesting that the Chinese TV industry had caught up technologically with global leaders. HiSense is now producing LED and LCD TVs which are technologically as advanced as those of Korean and Japanese producer, and importing these into South Africa, where their retail price is 25 – 35 percent below that of the other Asian producers.

China's 'go out' policy included the goal of promoting Chinese brands abroad, but brand-building requires the development of capabilities which were not in strong supply within China: according to Gao et al (2003), "the biggest obstacle [to Chinese brands 'making it' in developed country markets] is Chinese manufacturers' lack of vital marketing skills.... the Chinese have no overseas [read: developed country] distribution channels or service networks, little promotional or advertising savvy, and limited pricing skills. It is questionable whether these companies could quickly develop a feel for the design and feature preferences of Western customers."

HiSense's record suggests that this assessment may have been overly pessimistic, since the company is rapidly establishing its brand in developed country markets. In 2010, it became the 'naming rights' sponsor for one of Australia's leading Australian Rules football teams, and was already the named sponsor of an arena at the Australian Open tennis tournament. In Israel, it sponsors the Israeli Football Association. In the US, the Chairman of HiSense, Zhou Houijian, was a keynote speaker at the 2010 Consumer Electronics Show in Las Vegas, a major industry trade fair.

In South Africa, HiSense has followed a carefully considered marketing strategy since entry. The global firm's brand-building strategy meant that HiSense South Africa did not go the OEM route but sold under its own brand name even though the brand was initially unknown and Chinese products were perceived by consumers as low quality. The HiSense marketing budget, tightly controlled by head office like the rest of the local operation, was very small for a long time – ten years after entry, the marketing

budget remained just over 2 percent of turnover, and only ten percent as much as Samsung and LG, who were establishing their brands in South Africa at the same time. To compensate for these constraints, HiSense focussed on getting its product into furniture chains rather than supermarkets or appliance discount stores. The advantage of the furniture chains was that they would advertise products under their own brand names, compensating for HiSense's limited budget and linking the brand with the chain's quality. In contrast, discount stores would not advertise the product brand while supermarkets were associated with poor quality products. One of South Africa's major furniture chains, the JD Group, agreed to take HiSense products early in its history in the country, and the relationship has flourished. HiSense has subsequently been able to sell not only to other furniture chains but also enter discount stores, including those owned by the JD Group.⁶⁶ It would appear that as sales in South Africa have grown, so has the local marketing budget: HiSense mounted a large promotion campaign at the time of the 2010 World Cup in South Africa, including sponsoring a 50-meter high ferris wheel adjacent to the football stadium in Cape Town. The company claimed that sales had increased 70 percent from 2009 levels.

(ii) SVA

SVA's South African operation presents a strong contrast to HiSense in two significant respects, namely, the strategy for market development and brand-building and the degree of head office control. SVA's initial investment in South Africa was small, only \$1million, which included the value of an imported TV assembly line lying idle in China. Output in 2007 was about 80 000 sets *per annum*, though the installed capacity was 100 000 sets. SVA claims a TV market share in South Africa of about 10 percent, though the true figure is perhaps closer to 5 percent. The company does not export. SVA's market development strategy focussed on OEM production rather than its own brand: 70 percent of its TV output is labelled for retail distributor chains or established brands. SVA's first OEM customer in South Africa was the Pick 'n Pay supermarket chain, a market segment which HiSense had consciously avoided, and it has also produced for Daewoo and Panasonic in South Africa. The remaining 30 percent of SVA output is aimed at the low end of the market under SVA's own brand. According to management, sales revenue from TVs was R80 million, 30 percent of total South African turnover of R270 million (\$40 million) in 2006. The profit margin on TV sets was 5 percent of the ex-factory price, with imported components comprising about 60 percent, local components (mainly the cabinet) about 14 percent, labour for assembly about 13 percent, with transport and overheads the remainder. The margin for washing machines was a little higher at 8-10 percent and stoves even higher at about 12-15 percent.⁶⁷

SVA South Africa is 40 percent owned by local (expatriate) management which makes its own investment decisions with respect to both expansion of existing product lines and moves into new lines. According to local management, the Chinese head office is primarily interested in the local operation's contribution to financial results, and takes little interest in the details.⁶⁸ This facilitated its diversification to the point where TV assembly is no longer the major activity. In 1997, four years after entry, SVA began to produce OEM washing machines for Defy, the largest South African brand, and it expanded in 2001 by buying up the assets of the other major domestic producer, Univa, which was bankrupt. SVA has a 50 percent market share in

(domestically-produced) washing machines, which contribute about a third of SVA's local turnover, and domestic market growth has been strong, around 25 percent *per annum*, roughly the same as the TV market. SVA-produced washing machines are exported to the Southern African region by Defy. The largest share of SVA's turnover in South Africa – 37 percent – comes from stoves, a product which, unlike washing machines, is not produced by the parent firm in China. Stoves are seen by local management as a reliable steady market, given the ongoing government-led programme for new home construction for low-income people, which involves the completion of around 300 000 houses per annum, each requiring a stove.⁶⁹ SVA claims a 25 percent share of the stove market. As with the TV operation, in both stoves and washing machines, the assembly line machinery and some of the core components are imported from China.

Upon its initial entry into South Africa, SVA located its production facility in a peri-urban area with low wages, about one-third the level of HiSense wages. HiSense has now relocated to the same area. SVA has a total of around 550 employees, 100 in TV production, 300 in stoves and 150 in washing machines.

Looking at SVA globally, internationalisation in the 1990s focussed on JVs with foreign firms in the Chinese domestic market. The company's strategy was to focus on its manufacturing capabilities to ensure early entry into markets with new products, relying on its JV partners for technology rather than developing its own technological capabilities (as HiSense did). South Africa was the only foreign market which SVA entered before 2000, but it has subsequently established production facilities in Bulgaria (2003), Pakistan (2005) and Argentina. In 2000, SVA hired McKinsey to improve product quality and marketing (though this had little impact on the South African operation), and began to participate in trade shows in the US. According to Gao (2003), SVA's US strategy focussed on building its reputation within the trade, rather than on high-profile branding exercises aimed directly at consumers. It did some OEM manufacture for (mid-size) retail chains, but mainly avoided approaching retail chains directly, especially large chains such as Wal-Mart, where competition to access the supply chain is very fierce. Instead SVA focussed on working with distributors who assist suppliers with quality and marketing. In line with its emphasis on manufacturing capability, it chose to locate itself in high-end market segments, where it competed with Korean and Japanese producers on a cost-quality combination, and avoided pure cost competition with other Chinese producers at the low end of the market. By 2003, it was seen to have "transformed itself from an also-ran maker of conventional color TVs into a leading electronics group focusing on high-end plasma TVs, TFT-LCD displays (flat-screen monitors), and DLP projection TVs. SVA has proved itself by mass-producing quality products at low cost" (Gao et al, 2003).

Although it focussed on the higher end of the market in product terms, the US entry strategy was cautious and risk-averse, in downplaying brand-building and targeting revenue purely on the basis of manufacturing capabilities. In this sense, the global strategy was reflected in the South African operation, where brand-building was eschewed and entry into stove and washing machine OEM could be seen as opportunistic attempts to leverage the mass-production capabilities of the TV operation. In China, the company also invested in sectors outside its core business, such as a JV in life insurance with a Japanese company, apparently in the hope of

generating profit. Surprisingly, the South African management reported that the head office was concerned that the South African operation was not building the brand.

In 2004, SVA's global employment was over 25000, and its sales revenue \$5.1 billion, with gross profit of \$195 million. In 2006 it experienced an operating loss of \$263 million dollars (Electronic Business, 2007) and it lost a similar amount in 2008 (CIB, 2009). The reasons behind the 2006 loss are unclear, but in 2008, the immediate cause was the drop in demand associated with the global financial crisis, though analysts saw the underlying issue as the company's lack of technological capabilities and consequent dependence on Japanese partners, leaving it stranded when one of the latter refused to allow SVA to move to a new generation flat screen technology. In 2009, SVA had to be bailed out of financial difficulties by the Shanghai Government, its major shareholder, and has been forced to restructure, including selling off some of its core assets while also exploring new product lines (such as hand-held LCD screen devices) in an effort to restore profitability. It is not known whether the parent company's difficulties have had any impact on the South African operation. But SVA's (and as noted below, XOCECO's) difficulties reveal a downside to (market-seeking) Chinese outward foreign direct investment, especially for those firms which shifted from an emerging market focus to a developed country focus. With sustained recovery in developing countries looking more likely in the short to medium term, it may be that the emphasis in internationalisation will revert to these economies not because they are easier markets to penetrate with less exacting standards, but because they are more reliable sources of demand growth.

(iii) XOCECO

Since Sinoprima (XOCECO) could not be interviewed for this paper, less is known about its South African presence than the other two Chinese producers. Sinoprima made a small initial investment in South Africa on its 1998 entry – in 2001, its assets were worth only R4.5 million, and it achieved sales of R100 million in that year. Its production facility is located in the same urban, high wage, area of Johannesburg out of which HiSense relocated in 2008. In South Africa, it sells under its own brand.⁷⁰ It has marketed its Sinotec brand fairly aggressively and had a larger brand-building budget than HiSense, judging by its 2009 sponsorship of a “superbike” racing team, Team Sinotec Suzuki. Its market share in the South African TV market is about ten percent, similar to that of HiSense. Like HiSense, it is now importing flat screen TVs to South Africa where they are very competitively priced

Aside from South Africa, XOCECO has six foreign distribution centres, all supplied from its manufacturing plants in China. In the US (which it entered in 2001) and Europe, it does OEM only, but in the Middle East and Central Asia it combines OEM with its own brand. The company is heavily internationalised: in 2006, approximately 53 percent of total revenue was from exports. Its production is more focused than that of HiSense or SVA: in 2007, 94 percent of revenue was from colour TVs, and with HiSense it was identified as the leading firm in the domestic Chinese flat screen market. However, like SVA, Xococo suffered large operating losses in 2008-9 – of about \$120 million – in the wake of the global financial crash and subsequent recession.

V. The impact of the Chinese TV producers in South Africa

Together, the Chinese firms supply almost 60 percent of South African TV set output, and 25 percent of the domestic market. HiSense and Sinoprime supply about 10 percent each and SVA about 5 percent. HiSense and SVA export to the Southern African region. Employment in the Chinese firms is low but stable: a total of about 800 workers, of which around 55 are Chinese expatriates, primarily in managerial, supervisory and quality control roles.

These benefits of output, employment and exports can be characterised as ‘static’, and the ‘dynamic’ gains (the contribution to local productive and innovative capabilities) from the Chinese investments are arguably limited. There has been some basic skills transfer to local semi-skilled labour, with possible further upgrading in future.⁷¹ But like other foreign investors in the South African consumer electronic appliance industry, both the European and Japanese producers during the early history of the industry and the Korean companies present since the 1990s, the Chinese investors have not transferred significant technology, skills or design capabilities to South Africa, nor have they localised component production. In general, benefits from FDI in these dimensions are derived from investors’ ownership advantages. In the case of the Chinese firms, the major ownership advantage in the South African market has been their ability to manufacture the core TV components very cheaply in their home country, so that little capability transfer of this sort could have been expected. Backward linkages to local suppliers exist but are not significant, given that local components are a very small share of value-added, and therefore opportunities for vertical spillovers are few. Similarly, horizontal spillovers are unlikely since there are only two local competitors (three including the Lesotho-based supplier).

In terms of the conventional measures of the impact of foreign direct investment in host economies, the major gain from the Chinese ‘brown goods’ assemblers has been to consumer welfare. The focus of all three firms primarily on the low-income end of the market has meant that this group of consumers have had access to relatively low-priced but reliable TV sets, both the CRT sets assembled in South Africa and more recently imported flat screen sets.

The impact of the investments on the parent firms has likely also been of some significance, though to confirm this would require further research in China itself. Although the subsidiaries’ margins in South Africa have been low, they have not been out of line with profit margins in China itself. Furthermore, despite the very small contribution to their parents’ global turnover and the modest volume of profits, the significance of the positive profit contribution by the South African subsidiaries should not be underestimated, as all three groups had persistent losses on *net* income (after interest)⁷² which for two groups, have become chronic during the global recession. There is no explicit evidence that the internationalisation strategies of the Chinese parent firms were directly influenced by lessons from their experiences in SA, but it seems reasonable to argue that this must have occurred, given the early entry into South Africa by all three companies as well as the small number of foreign operations of each company.

VI. Conclusion to Case Study I

Perhaps the most significant feature of the Chinese TV producers' South African operations has been their unspectacular but reliable operation and fairly rapid revenue growth for a dozen or more years each, underlining that it is possible in South Africa to sustain manufacturing operations in mass-market consumer products directed at the low-income, primarily domestic market, and contributing to output and employment while earning low, but positive, profit rates. This has been achieved despite high-maintenance labour relations, indifference from government and significant 'cultural distance' from their South African customers and suppliers.

It has been emphasised that their major 'ownership advantage', on which their profitability crucially depends, has been importing core components from their parent firms at low cost: the CRT, flat panel display and populated circuit board which comprise about 60 percent of the products' value. But this raises the question why these firms have maintained their operations in South Africa rather than simply closing them and exporting fully-assembled TVs from their production base in China. This is in fact what Amap, once South Africa's largest TV producer, did in 2009. Nu-World, another major South African distributor, chose from its entry into the TV market to import sets from China rather than assemble them in South Africa, even though it was already producing small domestic appliances in South Africa. To put the question differently, if HiSense and Sinotec can assemble TVs profitably in South Africa (using imported components, to be sure), why can Amap or Nu-World not do the same, rather than importing already assembled sets? Putting the question this way emphasises its policy relevance in an economy where the official unemployment rate is 25.3 percent.⁷³ The TVs sold in South Africa by both the Chinese-owned assembly operations in the country and by the South African importers contain key components produced in China, which comprise the majority of the product cost. Nonetheless the first group, the Chinese assemblers, are contributing to employment and value-addition within South Africa, whereas the South African importers are not, at least not through manufacturing activity.

The contrast between these two groups of firms suggests that the Chinese firms' ownership advantage is not sufficient to explain their continued presence as *investors*, and profitable investors, in South Africa. The reasons for, and benefits from, the internalisation of their South African presence (locating production in South Africa rather than exporting into the market) need to be elaborated, together with the interaction between the ownership and internalisation advantages, as well as with the location advantages. The advantages of 'internalisation' appear to be borne out by the failure of Omega and the non-entry of TCL, two companies which attempted the export route. One important factor in internalisation is that the Chinese firms have very low overhead costs in South Africa, operating on the basis of a Chinese 'business model' in which low overheads are standard, in strong contrast to the standard South African corporate business model. Differences in overheads, and more generally in their business models, may help to explain the contrasting strategies of the Chinese assemblers and South African importers, though it is also necessary to take account of the strategies of the two surviving South African assemblers. This is a question for further research.

For the Chinese firms, internalisation has been part of upgrading their ownership advantages. Whereas the latter were limited to low-cost manufacturing capabilities in China when these firms first entered South Africa, they now include knowledge-based assets in the form of technology and brands. Further research is required to evaluate the contribution of internalisation of their foreign presence to the upgrading of ownership advantages. But it is hard to see how Chinese firms could have constructed knowledge-based assets, particularly brands, by selling only in their domestic market and exporting from it. While foreign production operations may not contribute directly to the construction of a brand which requires a marketing presence rather than production *per se*, successful global brand-building on the basis of exports alone seems unlikely when whatever its size, the firm's domestic market is culturally and linguistically non-Western and consumer incomes are low compared with Western levels. These additional obstacles to enhancing ownership advantages do seem to distinguish 'South' outward investors from 'North' and impel the former to foreign investment earlier, though their importance is likely to vary across the 'South', being less significant for, say, Indian or South African investors than for Chinese or Indonesian. As an aside, it is worth noting that the argument does not require distinct theory.

The entry strategies of the Chinese auto companies in South Africa are instructive in this regard. Although none are yet assembling in the country, several have established distribution and service networks in South Africa which are clearly aimed at brand-building. The South African distributors importing Chinese vehicles have also established separate local operations to build the brands though they explicitly link these operations with their own brand to piggy-back on their own reputation. But whereas a marketing presence based on exports rather than a production operation in the host economy may be feasible in the case of (physically) large, high-value products like vehicles, it is unlikely to be true for products which are smaller and lower value such as home electronic appliances. In the latter case, internalisation in the form of a foreign production operation is more likely.

The durability of the South African operations of the electronics firms examined in this case study support the case for further Chinese investment in consumer goods manufacturing sub-sectors in South Africa, even if this involves sourcing components or inputs from China rather than the domestic market. Investment along these lines should be actively pursued by the South African government, in order to expand both employment and consumer welfare. This would amount to a new form of import-substitution, since many of the products are currently imported from China, but there seems no reason why they should not be produced in South Africa using imported inputs. Domestic value-addition would undoubtedly be low, but this is a lesser concern if the primary objective is absorption of unemployed labour.

From a policy point of view it is also important to understand why there has been very little imitation of the Chinese business model in South Africa, in other words, why spillovers to domestic firms have been limited. One reason may be the small number of Chinese firms and their relative obscurity in South Africa, though there are undoubtedly other factors arising from South African business culture and economic policy.

In the TV industry itself, and the broader consumer electronic appliance industry, producers in South Africa, including foreign investors, will continue to be constrained in terms of scale economies by the linked problems of limited market size and lack of technological capability. Local component production could enable competitive exports of assembled appliances to sub-Saharan Africa, but locally-owned firms will not take on the investment risk. Chinese assemblers might do so if domestic cost structures were appropriate, but policy shifts in the exchange rate and in the labour markets would be required in addition to trade policy intervention. The firms' history in South Africa also reflects the 'location advantages' of the South African market, which was part of their motivation for entry. Market growth has been strong especially since 2000, and future growth potential remains significant, especially with new electronic technologies coming through, such as digital broadcasting.

CASE STUDY II - FINANCIAL SERVICES IN CHINA & SA

The second case study is motivated by the Industrial and Commercial Bank of China (ICBC) purchase of 20 percent of Standard Bank of South Africa (SBSA) in a deal worth \$5.5 billion. Each is the largest bank in its economy, and at the time the deal was announced in November 2007, it was the largest foreign acquisition yet by a Chinese firm at that time and the largest single FDI into SA.

The focus of the case study is broader than ICBC and its partial acquisition of SBSA. ICBC was in fact the fifth Chinese entry into South Africa's financial services sector. In 2007, there were three other Chinese banks present in South Africa: China Construction Bank and Bank of China both established branches in 2000, while China Export-Import Bank and Everbright Bank had set up representative offices in 1999, though Everbright closed its office in 2004. In 2009 the China Development Bank became the sixth Chinese bank to open an office in Johannesburg of its China-Africa Development Fund, which had been established in 2007 following the 2006 Forum on China-Africa Co-operation (FOCAC).

There has also been significant entry into China from the South African financial services sector, seven firms in total have entered of which two have withdrawn (see Table 6). The first to enter was Nedbank in 1994. ABSA opened an office in Shanghai in 1995 and the pension fund administrator and risk consultancy Alexander Forbes in 1996. Both Nedbank and Alexander Forbes exited China in 2004. In 1999, well before the ICBC deal, Standard (SBSA) had established an office in Beijing, which it substantially expanded after ICBC's acquisition, with 50 staff by November 2009. The last of the 'big four' South African banks, First Rand, entered China only in 2006, rather later than the others. Two other major South African financial services firms have also invested in China. Old Mutual, the life insurance company which moved its headquarters from Cape Town to London in 1999, opened an office in China in 2004, but it gained a significant presence in 2006 when it acquired the Swedish insurance firm Skandia, which was already part of a life insurance JV with Beijing State-Owned Assets Management (BSAM).⁷⁴ South Africa's largest health insurer, Discovery Health, announced in August 2010 that it had purchased 20 percent of Ping An Health, the health insurance subsidiary of Ping An Insurance, China's second-largest insurer.

In addition to the large number of firms in this sector investing in the other market (relative to the numbers involved in the overall FDI relationship), two other features are also striking. First, several of the financial services firms (5 of the 6 Chinese and 3 of the 7 South African) entered the other market 'early' in their internationalisation, that is, the market was one of the first the firm entered. Second, many of the firms have established alliances with each other, including JVs. The case study is concerned with three questions: Why are such a large number of financial services firms from both sides involved in the China-South Africa FDI relationship? Why did so many of the financial services firms, especially the banks, enter the other market early in their internationalisation processes? And lastly, why is there such a prevalence of alliances between Chinese and South African firms in the sector? The answers to these questions require an examination of the 'ownership' advantages and the internationalisation motives and strategies of financial services firms, in particular those from developing economies.

I. Foreign investment in financial services

The answers to these questions require some consideration of motives for foreign investment by financial services firms as well as its determinants, that is, firms' ownership, location and internalisation advantages. The usual distinction between market-seeking investment and resource-seeking motives for foreign investment is more complicated for services firms, including in financial services. The major motives for bank entry into a foreign economy are one or more of the following: (i) to enter the local retail or wholesale market in the host economy; (ii) to support trade between the home and host economies, by providing trade finance; and (iii) to support FDI between the home and host economies, by following major clients in *their* internationalisation process. The first two of these are clearly market-seeking, and the third is usually interpreted in the same way. However, it is important to distinguish market-seeking activity aimed at *new* clients from activity aimed at strengthening the relationship with *existing* clients by obtaining new business from them. The latter is more properly understood as *market-sustaining*.⁷⁵ Market entry into host economies with more sophisticated financial sectors than the investing firm's home economy can also be (strategic asset) resource-seeking, aimed at strengthening 'O' advantages though enhancing capabilities, such as risk and credit analysis and product development.

Turning now to the ownership advantages of financial services firms, the first and most obvious of these is capital, that is, a strong balance sheet able to support the intermediation activity (borrowing, loans and investment) that underpins income and profits in the sector. The specifics of these vary across different financial services sub-sectors – banking, insurance and securities – for which products differ, but all financial services firms need to be able to collect funds from large numbers of customers who have surplus funds and lend them on to large numbers of borrowers who have deficits, ensuring that the latter are creditworthy. This requires systems – for product development, marketing and distribution, for client service, and for credit and risk analysis – which in turn reflect firms' technological capabilities. The firm's branch network constitutes another ownership advantage: the more extensive its network, the easier it is for customers to access its services. In addition to gaining new customers, financial services firms' create network externalities by opening new branches, as existing clients also obtain a benefit, which consolidates the firm's existing customer base. Thus, entry into new foreign markets, whether market-seeking or market-sustaining or a combination, reinforces existing ownership advantages. The 'global bank' or 'network bank'⁷⁶ strategy followed by some 'North' banks during the past twenty years is based on "a direct presence in each of the major geographical markets and on providing a local service based on global resources. They are in fact selling a *global brand image* ... [However] there is considerable doubt that such a 'one size fits all' strategy really works in a world that continues to be highly differentiated" (Dicken: 2007, 395).⁷⁷ The alternative strategy, labelled 'gone native', aims to build a 'local' brand and become a market-leading presence in a small number of markets, often by entering via an acquisition (Economist, 2010).

Because services are produced and consumed simultaneously, internationalisation of services firms for the most part requires internalisation via the establishment of a commercial presence in the foreign market. But the need for internalisation may present a barrier to internationalisation if its cost is too high or if a firm does not have

all the requisite capabilities, which may well affect ‘South’ investors more than those from the ‘North’. As discussed below, alliances can help to address this problem. Location advantages may also differentiate ‘South’ and ‘North’ investors in the financial services sector, since policy and regulation are crucial determinants of the business environment in the host economy and therefore of the risk assessment of potential foreign entrants. If the hypothesis on the relationship between risk assessment and familiarity with the operating environment has validity, it would be expected to apply in this sector.

II. The financial services sector in South Africa

Turning now to South African and Chinese banks and other financial services firms, their O advantages reflect the respective financial systems which are both strong by developing country standards but in very different ways. Due to its colonial history and industrialisation based on gold and other mining, South Africa’s financial services sector has from its initial development been both tightly integrated into the international economy and strongly oriented towards corporate financing. These characteristics created a legacy of strong skills and high-level capabilities in financial services, especially in credit and risk management and in corporate and structured finance. Foreign banks from the UK and Netherlands dominated the banking system until the 1980s when they withdrew for political reasons, selling to local shareholders. The corporate sector developed early as a result of the need for large amounts of capital to finance gold mining – the Johannesburg Stock Exchange (JSE) was formed in 1887 to direct capital into the mining industry and later secondary industry, and an active market for corporate control emerged after 1945. In the late 1990s, the JSE was in the top 20 globally by market capitalisation. FDI was important in manufacturing development, and from the 1970s, South Africa became a significant sovereign borrower. All of these factors contributed to integration into the international financial markets and thus to skills and capabilities development in the banking sector. These were maintained even after foreign withdrawal from the banking sector in the 1980s, partly through the domestic banks’ continued presence in global financial centres and foreign banks’ presence in South Africa⁷⁸, and partly through continued participation in international banking supervision and monetary policy networks. From 1995, the domestic banking sector was re-opened to foreign branch banking, and the number of foreign banks with a market presence nearly doubled during the next 5 years, increasing competition in the domestic wholesale banking market and contributing to capability upgrading in areas such as credit and risk management and investment and merchant banking, together with new products in the domestic market, such as warrants and interest rate and currency derivatives.

In retail banking and insurance, competition was limited as the top 3 or 4 firms gained substantial market shares. They were aided by strong market growth between the 1950s and 1980s, ironically linked to extreme income inequalities resulting from apartheid. Despite their dominant position, capabilities in both markets continued to develop as both banks and long-term insurers focussed on cost reduction to raise profits and product innovation was used to retain customers rather than price competition. Of course the target market was the middle-class, with services at the bottom end of the retail market underprovided and very costly to consumers, even after apartheid ended. South African institutions have not been to the fore in serving very low-income customers in their home or foreign host markets, but their

capabilities in serving higher-income retail segments are of industrialised economy standard.

The main ‘O’ advantages of South African financial services firms are the breadth and depth of technical capability. But the small domestic market limits firms’ capital base and their market growth potential. There has long been a sense in the sector that saturation point has been reached, even though this ignores potential ‘bottom of the pyramid’ growth.⁷⁹ Jacko Maree, now the CEO of Standard Bank, suggested in 2002 that: “The issue is where the growth is going to come from...over time it is hard to see asset growth of more than GDP plus inflation plus a little bit on top of that. That’s not particularly exciting. If you’re building a strategy about being an asset-based [rather than fee-based] lending bank, you are going to have a problem.” (Euromoney, Sept 2002) Similar considerations apply to the life insurance market.

III. Internationalisation in South African financial services

Thus internationalisation has become one option for asset growth, though it has not been a high priority for all South African financial services firms. From the mid-90s, three distinct strategies for internationalisation evolved in the sector. The first strategy, pursued by Nedbank, Absa and FirstRand in the banking sector, was to maintain the market-sustaining approach of the 1980s, in other words to support the international trade and investment activities of existing South African corporate customers. This accounts for the ‘early’ entry into China of Nedbank and Absa, where their representative offices were clearly oriented to trade with South Africa (as well as perhaps the rest of Africa).⁸⁰ The cost of entry via representative offices was low, but the growth of trade between China and South Africa was only 9 percent *per annum* between 1995 and 2000, and 14 percent between 1995 and 2003, which was perhaps lower than expected and possibly contributed to Nedbank’s withdrawal in 2004. Financing trade between China and the rest of Africa may have been difficult given the two South African banks’ limited presence in Africa, and there was little prospect of them breaking into China’s corporate finance market at that point.

In 2002, in addition to four subsidiaries in Southern Africa, Nedbank had branches in London, Singapore and Hong Kong, and representative offices in China and Taiwan. In 2010, it is no more internationalised than it was eight years ago. At that time, ABSA had a presence in six countries outside Africa to support corporate clients⁸¹, as well as four Southern African countries. The partial acquisition of Absa by Barclays in July 2005 was partly aimed at extending Absa’s international presence by transferring all Barclays’ operations across, but this plan fell through and there has been no replacement strategy, so that Absa’s international presence in 2010 spans only eight countries, narrower than in 2002. FirstRand Bank has been much less focussed on internationalisation than its three main competitors: in 2004 it was only in Botswana, Namibia and Swaziland, as well as London. Since then, it has expanded by opening branches in three more African countries as well as India, and representative offices in China, the UAE, Nigeria, and Angola.

Standard Bank (SBSA) stands out amongst the banks, both for giving much higher priority to internationalisation and adopting a distinct strategy, involving market-seeking with an emerging market focus. In insurance, Sanlam’s approach has been similar in both respects, though less active. Jacko Maree of SBSA insisted that SBSA was not interested in the US, which was “overbanked and too competitive a market to

buy in...*we specialise in interesting places*” (Financial Times, October 25 2007, emphasis added). For SBSA, entry into China was *not* early: it pursued internationalisation in emerging markets from 1992 when it acquired ANZ Grindlays Bank which had a presence in eight African countries. By the end of 1999, the year it established its Shanghai representative office, it had a presence in at least 15 emerging markets in Eastern Europe and Latin America as well as Africa and Asia, and in eight industrialised countries. SBSA expanded its activities in China in 2004, setting up Standard Resources China as a commodity trader and M&A advisory service.

SBSA aims to be a ‘mini-network’ bank, that is, able to provide services across a large number of markets, if not globally. In a lengthy interview with McKinsey, in which he also illustrates the strengths and weaknesses of South African banking, CEO Maree stated: “We are trying to position ourselves as the ‘go to’ bank for the African continent. ...Because we are present in 17 African countries, we’ve got a significant enough base to position ourselves as a bank that can assist multinationals with the full spectrum of financial solutions across the continent. [The ICBC deal has] heightened our belief that the skill set we have is relevant to other developing countries. We hold no competitive advantage in the developed world. We are a smallish bank on the global scene...but our skill set is relevant because SA has a world class financial sector” (Kloss & Sagar: 2010, 6). Another senior executive had earlier claimed that “we [SBSA] are strategically positioning ourselves to be part of trading and capital flows between developing economies...important that we have a level of scale that we can remain competitive in [emerging markets].”⁸²

The third internationalisation strategy for South African financial services firms involves market-seeking but with an industrialised country focus. This approach has been followed mainly by insurance companies such as Old Mutual (OM), Discovery and Liberty Life but also by the fifth-largest bank Investec. The transfer of the firm’s primary stock market listing abroad, as OM and Investec have done, is reflective of this strategy though not a necessary element, as Discovery illustrates. When OM shifted its head office to London in 1999, it also planned to broaden its scope beyond insurance, as reflected in its 2004 mission statement: “Our core industry is the management of money. We provide high quality investment skills to build and protect client assets.” With the exception of Discovery, these companies have aggressively pursued this strategy through acquisitions, rather than looking for organic growth based on greenfield entry, or using JVs with local partners to reduce risk. This has been true notwithstanding the higher costs of the acquisition route, which have been substantially increased by several poor-quality acquisitions by South African firms, most notably OM, which made very large acquisitions in the UK and the US asset management markets, both of which were eventually sold at huge losses. OM’s most successful acquisition has in fact been the Swedish insurance company Skandia, which has a major operation in the UK. This was perhaps not coincidental since insurance is OM’s own industry. Entry into China was not an early priority for either OM or Discovery (which also has a failed US venture and a more successful one in the UK), and OM’s presence in China is largely through the JV originally entered into by Skandia. As in the UK and the US, OM tried unsuccessfully to enter the asset management business in China, buying 49 percent of ABN Amro Asset Management Asia in August 2008 from Fortis Bank for €165 million but withdrawing from the deal in May 2009 at a cost of €45 million.

The South African pension fund administrator and risk consultancy Alexander Forbes was another failed entry into China, which it entered in 1996 via a representative office. In 1997, it made an acquisition in the UK that gave it a presence in 30 countries in Latin America and Asia, followed by further acquisitions in the UK in 2001-2. At this time it planned also to expand in China via an acquisition. It was earning just below half its revenues internationally but had clearly over-extended itself, and in 2004 it exited from China and in the following two years from other emerging markets. It was de-listed from the JSE in 2007 and is now restructuring, part of which is a more modest international effort in Africa.

IV. The Chinese banking sector

The modernisation of China's financial system is of course much more recent. During the 1980s, the 'monobank which had provided financial services during the heyday of central planning was broken up, and four large SOE banks created including ICBC, CCB and BOC, all now present in South Africa, together with the Agriculture Bank of China. Each of the four had a different mandate initially, these being urban depositors and borrowers, infrastructure and project finance, international trade and rural areas respectively. The central bank, the People's Bank of China, was also created out of the monobank. The big four banks have dominated the banking system since their creation, with 53 percent of bank assets in 2005.⁸³ The main characteristics of the Chinese banking system are the size of market and the backing of the state. The policy of 'reform without losers', that is, a soft budget constraint for borrowers, meant that the state forced the banks to lend notwithstanding the creditworthiness and repayment record of borrowers. At the macro systemic level, this resulted in deep but narrow financial development: the money supply (M2) was over 150 percent of GDP in 2005, which was far higher than other economies, and 78 percent of domestic financing was via the banks, with debt and equity financing lagging very far behind. Notwithstanding high rates of economic growth, the consequences for the banks were very high non-performing loan (NPL) ratios, possibly as much as one-third of GDP at the time of the Asian crisis in 1998. It was the latter event that forced the realisation in China that bank reform was essential, though this was reinforced by the commitment as part of the WTO accession to allow foreign bank entry into China from late 2006. The big four banks were recapitalised in at a cost of RMB270 billion (US\$34 billion), as well as a 'bad bank' set up to take over NPLs from big four worth RMB 1.4 trillion (US\$175 billion). Later, in the lead-up to the initial public offerings (IPOs) for the four banks – CCB and BOC in 2004 and ICBC in 2006 – the banks themselves wrote off further debt and undertook restructuring, and were given further recapitalisation funds. The eventual cost to the government for all four banks was \$300 billion over 6 years.⁸⁴

Given the way in which the banks were used to support enterprise reform, there was very limited capability development, there being little need for risk or credit assessment since loans were mostly politically determined. The bond and equity markets were also structured to assist SOE reform, by channelling finance to SOEs while the state retained control, so that a market for corporate control did not emerge.

V. Internationalisation by Chinese banks

Given the nature of the domestic banking system, the Chinese banks were unsurprisingly cautious about internationalisation. In 2006, less than 2 percent of

Chinese bank revenue was international. But after their IPOs, the banks rapidly increased their OFDI: in 2006 BOC bought Singapore Aircraft Leasing for \$965 million, and CCB bought the Bank of America operation in Hong Kong for \$1.2 billion. In 2007, the Chinese banks collectively invested \$20 billion abroad over and above the ICBC/SBSA deal, including the China Development Bank purchase of 3 percent of Barclays for \$11.66 billion.

The Chinese banks entered South Africa well before their IPOs and the subsequent wave of outward FDI, in fact immediately after the 1998 crisis, which was almost certainly linked to their entry to South Africa. There is a distinction between opening branches or representative offices on one hand, and making acquisitions on the other. But even so, South Africa was an early node in their international network for CCB, BoC, Exim Bank and Everbright, as well as ICBC which was a later starter in internationalisation. Trade and project finance with South Africa and the rest of Africa were clearly a factor for all the banks, most particularly Exim Bank which also established an office in West Africa, though it closed this by 2006. But China-Africa trade in 2000 was only \$10.6 billion, just over 2% of China's global trade of \$474 billion. Trade with South Africa was \$2.05 billion, about one-fifth of the African total, while SADC as a whole was \$4.4 billion.⁸⁵ This suggests that establishment of bank branches had other motives in addition to trade and project finance in Africa. Another factor may have been the Chinese immigrant community in South Africa, though its size at the time of the initial bank entries is unclear. There is no clear evidence for the argument that bank entry was part of a broader African strategy by the Chinese government. Instead, it seems crucial that the entry of BOC and CCB in 2000-1 was very soon after bank reform began. Both banks were in very poor shape, and entry must have been approved as part of the bank reform and upgrading strategy. This supports the view that the Chinese saw South Africa as a good 'learning arena'. Both BOC and CCB opened branches rather than representative offices, which was more costly, but since each invested just under \$10 million capital, the cost would not have been a significant barrier.⁸⁶

For at least five of the six Chinese banks in South Africa, (including Everbright), entry was very early in their internationalisation. BOC's internationalisation process is complicated. The bank had been started by Sun Yat Sen in 1912 and had branches throughout Asia and London in the 1920s and 1930s, most of which closed during World War II. After 1949, part of the bank including some foreign branches shifted to Taiwanese ownership, while other foreign branches were given or sold to the countries in which they were located. A branch was opened in New York in 1981. At end-2005, BOC had a presence in 25 countries (in addition to Hong Kong and Macau) with multiple branches in UK, US and Japan. It is unclear which of these countries were entered before the Johannesburg branch opened in 2000.

CCB had branches in Hong Kong (1995), Singapore (1997) and Frankfurt (1999) before Johannesburg in 2000. Branches in Tokyo and Seoul and representative offices in London and New York followed by end-2004.⁸⁷ Exim Bank established offices in Johannesburg and Abidjan in 1999, but the latter was closed and an office in Paris opened between 2003 and 2006. The China Development Bank established the Johannesburg office of the China-Africa Development Fund in 2009, which is its second office outside China after Pakistan. According to the Everbright Bank's Annual Report for 2003, the bank had offices only in Hong Kong and South Africa. It

is not clear why it closed the Johannesburg office in 2004, but no other offices outside China have been opened, so the reason is probably that bank restructuring to move towards its 2010 IPO became the sole priority.

ICBC's international business in 2008 provided 3 percent of its revenue. In 2004 it had bought the Fortis securities business in Hong Kong and a bank in Macau, and in late 2006, it spent \$56m on a bank in Indonesia. The SBSA acquisition was next, in late 2007.

VI. Alliances between South African and Chinese firms

As noted earlier, the number of joint ventures (JVs) and other between Chinese and South African financial services firms is striking. Only two of these were established as part of the entry process – Discovery's entry into China in a JV with Ping An and ICBC's partial acquisition of SBSA – while others were formed only long after entry, for example, CCB entered South Africa in 2000 but established its 'strategic co-operation' alliance with First Rand only in July 2009.

In the two alliances formed at the time of entry, both sides explicitly chose 'South' firms as partners. Jiang Jianqing, ICBC's chair, argued that the SBSA acquisition "will help to build a foundation for ICBC to become a global bank. We are focussing on M&A in emerging markets in Asia and Africa because these places enjoy high growth rates and have great potential." (Financial Times, 25 October 2007) on the other side, SBSA wanted capital for foreign expansion, but it wanted capital as part of an alliance that brought business opportunities with it. It explicitly did *not* want a partner from a developed country as it feared this would have restricted SBSA itself to the African market. (Joffe, 2007) Ping An looked explicitly for a developing country partner *after* exploring possibilities for alliances with firms in the US. Ping An and Discovery were introduced as a result of their respective relationships with Prudential, the UK insurance company. Ping An saw Discovery as a potential partner because of the latter's rapid success after starting from scratch in a developing economy.

The CCB/FRB co-operation agreement was formalised in 2009. FRB's CEO Sizwe Nxasana affirmed the bank's market-sustaining internationalisation strategy by affirming that it "had no desire to have a presence in China itself, but [it] would like to be able to serve [its] clients, particularly corporate ones, that have a presence there. We also saw an opportunity to work with the increasing number of Chinese companies... doing business in Africa." (Euromoney, Sept 2010)

Two other banking alliances not directly involving South African firms are worth mentioning as well. The first was established in January 2010 between BOC and EcoBank, the originally Togolese bank with a presence in 30 African countries, including South Africa which it entered in 2010. In 2008, Nedbank had established an alliance with Ecobank to support SA corporates in Africa, which gave EcoBank support in structuring complex transactions such as aircraft financing (Euromoney, November 2010). The role of Nedbank in the BOC/EcoBank alliance is not clear but some link seems likely. The second alliance was established in October 2007 between one of Nigeria's leading banks, United Bank of Africa (UBA), and the Chinese Development Bank (CDB), which established the China Africa Development Fund (Euromoney, December 2007). It is unclear how this relationship has evolved.

As noted earlier, it is difficult for services firms *not* to internalise but internalisation can be costly and ineffective, particularly when O advantages are partial and limited in scope. In such a situation, as with both Chinese and South African financial services firms, alliances can enable expansion with limited internalisation, as both sides complement their own O advantages with those of their alliance partner. In this sense, the choice of ‘South’ partners is intentional. As expressed by Jiang Jianqing, ICBC’s Chair, SBSA will help with “ICBC’s ambition to expand into investment banking, private equity and insurance,” since half of SBSA’s profit is derived from these activities (Financial Times, 25 October 2007).

The banking alliances are focussed on outward FDI by the Chinese banks for which they need capabilities, with a secondary consideration being market access in Africa outside the China-Africa relationship. Chinese firms have capital and its banks have access to a market segment in the form of Chinese firms trading with Africa. South African (and other African) banks have strong capabilities and have access to other parts of the African market – South African corporates as well as investment and merchant banking. This underlines that in wholesale (corporate investment and merchant) banking, customer networks are also an important O advantage, and that alliances are not only strategic asset-seeking. In contrast, the alliances in insurance, between Ping An and Discovery and between OM (Skandia) and BSAM, are aimed at the Chinese firms developing skills to grow their own domestic market which has been small and undeveloped. For the South African firms, the motive is market-seeking.

Many of the firms involved in the alliances discussed here are also involved in alliances with ‘North’ partners, for example Bank of America is a major shareholder in CCB which itself has a stake in Barclays, and Goldman Sachs in ICBC, while Ping An owns a stake the Belgian financial services firm Fortis. OM and Discovery are more focussed on developed markets. But the conscious search for ‘South’ partners illustrates two important differences between ‘South’ and ‘North’ firms in financial services. First, the limited *scope* of ‘O’ advantages seems to be a characteristic of ‘South’ firms. Some ‘North’ firms may not have these advantages on a global *scale*, and therefore choose a ‘go local’ strategy as distinct from the global bank strategy, in other words, these smaller ‘North’ firms focus on a few foreign markets in which they aim to build a ‘local’ brand. But they do so using the full range of ownership advantages, including capital, capabilities and branch networks within the host economy. In contrast, ‘South’ firms do not have the full range of advantages and therefore are forced into alliances. The conscious choice of other ‘South’ firms for these alliances shows that firms recognise both the distinctiveness of the operating environment in developing countries and the need for familiarity with it in assessing risk, and of the potential for greater spillovers via alliances with other ‘South’ firms.

As Jacko Maree pointed out, “whenever you go into developing countries, you are exposed to different risks from those you might be used to if you’re sitting in London or NY and thinking in a developed country paradigm...understanding risk is more than just a financial concern.” (Kloss and Sagar, 2010)

Impact of alliances on the partners’ activities has apparently been significant though SBSA expressed disappointment in September 2010 about the slow revenue flow

from the ICBC deal. Though direct profit was not its main motive for the acquisition, ICBC could have no such reservations, since it had already obtained a 7.7 percent return on its investment after 18 months. Aside from slow revenue flow, there have been several benefits to SBSA. As part of the original deal, SBSA and ICBC set up a \$1 billion global natural resource investment fund and in September 2009 SBSA obtained a \$1 billion loan from a consortium including not only ICBC but also CDB, CITIC and BOC to support Chinese firms entering emerging markets. The two banks had initiated 65 joint projects by early 2009, though it is not clear how many of these are now completed. The first completed deal was as joint arrangers for a \$1.6 billion power station project in Botswana. Through its ICBC link, SBSA also has established joint projects with UnionPay, the Chinese credit card company, with CITIC, the major Chinese investment fund, and has initiated talks with Chinese infrastructure development companies interested in projects in South Africa and elsewhere on the continent.

FRB holding company RMB's earnings were up 42 percent in September 2010, driven mainly by the increased focus on China/Africa business as well as deal flow in South Africa.

The direct benefits in terms of new products and capabilities in sector within China's financial services sector are probably more significant than within South Africa's, but South African firms gain through market access both to Chin-Africa trade and to the Chinese market directly, so there are indirect gains for the South African economy.

VII. Conclusion to Case Study II

'South' firms do have different risk perception of operating in other 'South' economies, and as a result are more willing to enter. This is a factor in the extent to which 'early' entry has occurred. 'South' firms do have a distinct perception of risks in other developing economies. In the service sector, spillovers are greater from 'South' firms, paradoxically because their 'O' advantages are limited in scope and as a result they are forced into alliances from which both sides gain. These potential 'South-South' spillovers raise the likelihood of entry. This provides qualified support to the hypothesis that there are differences between 'South' and 'North' firms, and this in turn provides motivation for policy support for co-operation between firms.

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Interviews

SVA

HiSense

Amap

Standard Bank

Golden Nest

Sinosteel

Discovery Health

APPENDIX. The EDGE FDI Database

In this paper, use is made of The EDGE Institute's FDI Database, which includes inward and outward FDI between South Africa and the rest of the world⁸⁸, as well as Chinese and Indian investment into the rest of Africa. The database was initially constructed in 2002 from lists of firms obtained from embassies and business associations and from an exhaustive search of the business media in South Africa and internationally, and has been updated weekly on the basis of media reports since then. The database also includes an exhaustive list of outward investments by all the corporations in the 'Top 200' ranking (by assets) on the Johannesburg Stock Exchange (JSE). The data is verified using sources published by the company itself.

The EDGE FDI Database defines an operation as a foreign investment if (i) the foreign company owns more than 10 percent of the operation in the host country; (ii) the operation *adds value* in the host country; (iii) the operation is not simply a sales or representative office in the host country (in the case of manufacturing firms); and (iv) there are *ongoing* flows⁸⁹ (of finance, technology, labour, intermediate goods and intangible assets such as brands) between the company's headquarters and the operation in the host country.

The database includes investments outside South African by the dozen or so 'émigré' firms whose headquarters and primary stock market listings have been re-located abroad since 1994. It also includes large construction and civil engineering firms if they have a permanent presence in the foreign country, or if they have completed a major (multi-year) project in the past two years.⁹⁰ Franchisors are included as FDI as well, since they will often have an ownership stake in the master franchise in a country, but even if they do not, they will fulfil condition (iv) above relating to flows from the investor's headquarters to the host country operation.

The EDGE FDI Database lists investment operations of foreign firms in South Africa and South African firms in foreign host economies. Since it relies on data in the public domain, the financial value of an investment is often unreported. Reported financial values are not necessarily on a consistent basis across firms. The focus therefore is not on the total financial value of investment flows and stocks (as in the aggregate data discussed in Section III) but on the *number* of foreign investment operations, of whatever size financially. This enables analysis of a number of variables which provide a rich picture of the pattern and structure of FDI, including sectoral distribution, the pattern of entry and expansion over time and the mode of entry.

The database includes Chinese firms in South Africa identified on lists obtained from the PRC Embassy in Pretoria in 2002 and in 2007. The 2002 list contained 40 companies and the 2007 list 27 companies, of which 24 had been on the previous list. In other words, the PRC Embassy had contact with only 43 Chinese companies between 2002 and 2007. In January 2009, The EDGE Institute made exhaustive efforts to contact all 43 companies: only 29 were in South Africa and met the investment criteria. Beyond the PRC Embassy lists, another 19 Chinese companies were identified by a thorough search of South African and (English-language) Chinese media going back to the mid-1990s. All information sourced from the media was verified via company websites and/or telephone enquiries within South Africa.

NOTES

¹ Trade data in the text is from the South African Government, Department of Trade and Industry (www.thedti.gov.za, accessed August 29 2010), converted to US dollars using South African Reserve Bank average exchange rates for the year. South Africa's exports to China were US\$5.8 billion (ZAR 48.7 billion) in 2009, and South Africa's imports from China were US\$8.4 billion (ZAR70.8 billion), resulting in a trade deficit for South Africa of US\$2.6 billion (ZAR22.1 billion). The Chinese data differs from the South African data: South Africa's exports to China are reported to be US\$7.8 billion in 2009, and South Africa's imports from China US\$7.4 billion, resulting in a 2009 trade *surplus* for South Africa of US\$0.4 billion. According to this data, total trade between the two countries grew at 22.1 percent *per annum* between 2000 and 2009. The Chinese data is from the World Trade Atlas (accessed at www.tralac.co.za, August 31 2010).

² One major flaw is that the paper identifies a number of companies for which it presents case studies as Chinese when in fact they are Taiwanese.

³ This point is also made by Alves (2006) with reference to the Dept of Foreign Affairs.

⁴ These figures are also cited by several other authors. They appear to have come from MOFCOM's official publication of the time, titled *The Almanac of China's Foreign Trade and Economic Co-operation*. The 2003 edition listed South Africa as the 13th biggest recipient of outward FDI from China, with 3 projects worth US\$1.7 million during 2002, and a cumulative 98 projects worth US\$ 119.3 million at end-2002 (cited in Yi Zhang, 2009). Because they preceded the revision in the method of FDI data collection in China, these data are almost certainly inaccurate, in that they are based on project approvals, rather than actually realised investment. But irrespective of their accuracy in 2002, they were certainly inaccurate six years later.

⁵ UNCTAD (2007) indicates figure of 220, 243, 232, 350 and 510 approved projects from China to Africa for the years 1999-2003 in Table III.2 which appears to report flows – this would suggest a stock (cumulative flow) total of 1045 projects through 2002 and well over 1500 projects to 2003. But Table III.6 of the same report suggests only 499 Chinese FDI projects in Africa for the period 1979-2000, making the first set of figures of 463 projects for 1999-2000 alone seem high. If the first table is correct, South Africa would have about ten percent of African projects, which seems credible. If the second table is correct, South Africa would have 20 percent of African projects which seems high.

⁶ For example, Chen et al (2007) present what they label an empirical analysis based on a firm survey in China, but of the seven Chinese construction companies they identify as active in South Africa, only five have actually operated in South Africa, while a sixth is entering in 2009. But Chen et al do not mention at least three other Chinese construction companies which were active in South Africa at the time they wrote. Similarly, Burke et al (2008) present a list of South African companies in China which includes one company which had already withdrawn from China and two which were never investors there. Although they mention that some of the companies on their list have moved their headquarters from South Africa, they do not specify which are in this category.

⁷ Cited from Department of Foreign Affairs, 2005.

⁸ Cited from speech by Jacob Zuma (Department of Foreign Affairs, 2004).

⁹ UNCTAD (2007), Table III.2, page 53.

¹⁰ A table on page 8 of Burke et al indicates Chinese investment in South Africa \$7.3m in 2003, \$17.8 in 2004, \$47.4 m in 2005 and \$40.7 m in 2006. Though it is left unclear, these are apparently flows, implying a total flow of \$113.4m over the four year period. The source is given as either World Investment Report 2007 or 'UNCTAD report on Asian FDI' - the latter seems more likely, though it since no further bibliographic details are provided, it is also unclear whether this is the same as UNCTAD (2007). The figures in Burke et al are different from those in Tables I.5 and III.2 in that report.

¹¹ Unnamed Chinese diplomat in SA interviewed in July 2007.

¹² Despite ostensibly relying on Burke et al (2008), Kaplinsky and Morris (2009:7) suggest that Chinese FDI 'plays a moderately significant role' in South Africa.

¹³ This paper draws on the data for SA investment into China presented in the AERC scoping paper on SA: Burke, Naidu & Negpen (2008).

¹⁴ Cited in Hu Yuanyuan (2008): "SA's investment in China hovered around \$700m in 2006....China has invested thrice as much in SA as the latter in China, Davies said". It appears he was including the

2008 ICBC/Standard Bank transaction in the latter figure, though this deal was worth \$5.6 bn, well over three times as much as \$700m.

¹⁵ Cited from speech by Jacob Zuma (DFA, 2004).

¹⁶ See footnote 12: This paper draws on the data for SA investment into China presented in the AERC scoping paper on SA: Burke, Naidu & Negpen (2008).

¹⁷ Cited in Hu Yuanyuan (2008).

¹⁸ Cited from van der Merwe, 2008.

¹⁹ “China pledges more imports to optimize trade with South Africa”, English.news.cn 2010-04-01 accessed on www.news.xinhuanet.com August 27 2010. Jia Qinglin is identified as Chairman of the National Committee of the Chinese People’s Political Consultative Conference. He was addressing the China-South Africa Economic and Trade Cooperation Forum in Pretoria.

²⁰ Based on Rosen and Hanemann (2009), OECD (2008) and Zhaoxi (2009).

²¹ South African companies, including the local subsidiaries of foreign companies, need approval to receive foreign loans, which to some extent limits foreign investors’ financing options.

²² The limits for investments into SADC were higher: ZAR 50 million in 1997 raised to ZAR 2 billion in 2002. From 2001, the higher threshold was applied not only within SADC but broadened to Africa as a whole.

²³ MOFCOM, *Statistics of FDI from Selected Countries/Regions for 2007*, published April 17 2009. Although not made explicit, this document appears to refer to flows rather than stocks. The list includes 10 Asian countries (including Hong Kong SAR), 21 European countries, the US and Canada, and 4 ‘free ports’ (Mauritius, Cayman Islands, British Virgin Islands and Western Samoa). These 37 sources provided 93.84 percent of projects and 84.84 percent of inflows in 2007. Inward FDI stocks reported by MOFCOM are in fact cumulated flows which reflect stock trends rather than being a true reflection of actual stocks, for which the survey system is more useful (OECD, 2008: 61).

²⁴ Note that the SA flow data is collected on a different basis than the stocks, the method for flows being based on recorded actual flows, similar to the MOFCOM approach. But the flow data is not differentiated geographically.

²⁵ South African Reserve Bank (2003).

²⁶ This is illustrated by the South Africa-Mauritius FDI data, in both directions.

²⁷ The South African trade data shows a consistent deficit for South Africa but the Chinese data (from the World Trade Atlas) shows a more mixed picture with South Africa having a surplus in 7 of 15 years between 1995 and 2009, including 2008 and 2009.

²⁸ At the market price of Standard Bank shares at the start of October 2007, the value of the purchase was US\$4.3 billion, suggesting either ICBC paid a hefty premium or the reported value was inflated.

²⁹ Data is from Business Day, October 3 2006; AFX News, November 15 2006; Metals News, 21 September 2007; Engineering News, June 20 2008.

³⁰ Data is from the corporations’ annual reports for 2006 through 2008. Currency conversions use rates in Table 3.

³¹ In March 2009, Naspers valued its stake at US\$4,414 billion based on market capitalisation. In October 2009 the share price has approximately doubled compared to March 2009.

³² As noted, this assumption may not be justified in the case of the South African data, if the sample frame used is out of date and omits some recent entrants, distorting the geographical distribution by undercounting FDI from countries with a high proportion of recent entrants.

³³ The SAFE figure for outward FDI for end-2009 is US\$230 billion.

³⁴ One explanation posited for the high outward FDI flows to Hong Kong and the two Caribbean financial centres is the very high savings levels in China, especially in the corporate sector, and the inability to re-invest all the savings efficiently in fixed capital formation (notwithstanding the very high rate for the latter). See Morck, Yeung & Zhao, 2008.

³⁵ However, the OECD (2008) estimates that China owns only 1 percent of Africa’s inward FDI stock.

³⁶ Interestingly, Angola is recorded in the MOFCOM data as having only US\$78.46 million of Chinese FDI stock in 2007 (1.7 percent of the African total) and US\$68.89 in 2008 (a mere 0.1 percent of Africa). It appears that the vast majority of Chinese capital flows to Angola is indirect investment (portfolio, loans and other credit).

³⁷ Resource-seeking firms can be further divided on the basis of the *type* of resources sought: natural resources (minerals, agricultural land, tourist-linked), cheap labour or other cost-reducing resources, or strategic assets such as technology or high-level skills to enhance future productivity.

³⁸ This data is up to date as of August 31 2010.

³⁹ Of these, 100 are estimated to be SOEs. Cited by OECD (2008) from Xinhua February 2 2007, and by Wang (2007) from People's Daily, 17 January 2007.

⁴⁰ The data on India-South Africa FDI links is as of April 15 2010.

⁴¹ AGOA and EBA tariff exemptions not available to South Africa may have made a difference.

⁴² It may also be significant for strategic asset-seeking firms, but this is much less certain.

⁴³ The list excludes two firms which entered China originally from a South African base, but appear subsequently to have cut ties with SA. One is a producer of consumer electronics, which may have entered China as a contract manufacturer rather than a foreign investor properly defined, but in any event moved from South Africa to the UK shortly after shifting its SA production to China. The other is a property development company started in China by a South African entrepreneur, whose current location is unclear. In any event, the property developments in China appear to have no ongoing link with South Africa, so that this operation is possibly 'entrepreneurial FDI' but not FDI in the strict sense.

⁴⁴ This is based on interviews with 13 Chinese firms in South Africa carried out in 2002 as part of a survey on FDI in South Africa, reported in Gelb & Black (2004a), which collected information on parent companies and their internationalisation to that point.

⁴⁵ Surprisingly, a transport tax treaty had been signed between the two countries in March 1980.

⁴⁶ Gelb & Black (2004b).

⁴⁷ OLI refers to ownership, location and internalisation advantages, the three core factors which determine firms' capabilities to internationalise and their decisions about how to do so.

⁴⁸ Amsden (1992) draws a useful distinction between alpha technology (machinery, equipment and designs) and beta technology (supporting institutions such as management systems, labour relations, shopfloor practices and public policies), and argues that differences amongst the latter across different economies are responsible for a large part of the observed productivity differences.

⁴⁹ Eifert et al. (2005) draw another useful distinction, between factory-floor (physical) productivity and indirect costs, such as transport and logistics, land, energy, water, communications, legal and accounting services, which are "quasi-fixed costs" of a range of intermediate inputs, and which are generally relatively low and stable in industrialised economies but high and variable in developing countries. As they point out, "forms which are quite good at producing physical output at low cost within the factory gates may be unable to survive due to high costs outside of the productive process."

⁵⁰ There is also one producer in Lesotho (Kiota), which is an OEM producer for LG South Africa.

⁵¹ 2006 rankings and turnover are the most recent available (Electronic Business, 2007).

⁵² This paragraph summarises Marukawa's (2001) fascinating account of the transition from plan to market in the TV industry.

⁵³ Of course, the US was the largest industry in value terms, at about \$5.5 billion (Baumann, 1995) but the US produced only around 14.5 million sets in 1990 (Gao & Tisdell, 2004). The same sources imply that a crude estimate of the value of Chinese TV output in 1990 was about \$2.5 billion.

⁵⁴ It has not been possible to establish whether XOCECO entered South Africa before it entered Hungary.

⁵⁵ China is not included in the ranking table presented by Baumann, which is cited from "Elsevier Advanced Technology (Oxford 1990)", so that South Africa was in fact ranked 23rd.

⁵⁶ This was the estimate for CKD assemblers; for SKDs, it was half that level.

⁵⁷ Tariffs on CRTs were reduced from 30 percent to zero in 1995 but restored to 30 percent in 1996 when it was realised that so-called 'screwdriver operators' (assemblers of semi-knocked down kits (SKDs)) had thereby obtained a significant competitive advantage relative to the South African-owned CKD assemblers. At that time, only one of the three Chinese firms had entered South Africa.

⁵⁸ Interview with Jack Cohen, former chairman of Tedelex, September 2009.

⁵⁹ In many industries including the TV industry, illegal and under-invoiced imports have been major problem for domestic producers.

⁶⁰ One of the senior executives in a Chinese TV subsidiary in Johannesburg noted that management spent half its time on labour relations. Even allowing for exaggeration, this is a significant distraction from the other demands of operating a successful business.

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- ⁶¹ TCL was the 6th ranked electronics firm in China and 106th globally in 2006.
- ⁶² Jack Cohen interview, September 2009.
- ⁶³ The Chinese companies were apparently not invited to meetings between the industry and DTI in 2007-8 to discuss Amap's tariff application, nor asked to react to the 2006 anti-dumping application against the Chinese industry itself. The companies also found it difficult to deal apply to other public sector agencies for financial support and assistance with factory development or regulation.
- ⁶⁴ In 2004, HiSense's Shanghai listed entity reported revenue of \$1.26 billion and a profit margin of 4 percent – profitability of the overall group was probably much lower (Bell, 2008). These numbers are in line with other data from China: according to Albrecht et al (2008), Chinese companies of HiSense's size have profit margins of around 4 percent.
- ⁶⁵ See Wang (2006), Larcon & Barre (2009). Also "China hi-tech brands lead the way in Africa", www.emtworldwide.com, June 18 2009
- ⁶⁶ Interview, HiSense sales manager, October 2007.
- ⁶⁷ Data from interview with SVA management, December 2007. The reported margins and turnover shares of each of the three product lines suggest the claim of profits of about 3.5 percent of turnover was dubious.
- ⁶⁸ Interview, SVA management, December 2007.
- ⁶⁹ For the same reason, SVA South Africa was investigating the production of domestic electrical switch boxes.
- ⁷⁰ It was unable to register the Sinoprime name and instead uses 'Sinotec'.
- ⁷¹ Other Chinese electronics investors in South Africa have undertaken extensive in training, such as Huawei, which has established a number of training centres throughout Africa including in Cape Town.
- ⁷² Nine of the top 15 Chinese electronics companies made losses in 2006 (Electronics Business, 2007).
- ⁷³ This was the rate for the third quarter of 2010. See Statistics South Africa (2010). The official rate excludes people who have given up looking for work. Including them, the 'broad' unemployment rate was close to 40 percent.
- ⁷⁴ Skandia-BSAM was the second fastest growing Sino-foreign life insurer, moving from 20th largest in 2005 to 9th in 2007.
- ⁷⁵ See Gelb & Black (2004b), page 232.
- ⁷⁶ The *Economist* (2010) used this label to describe the global bank strategy (in contrast to the 'gone native' bank), and it was in fact ABN Amro's slogan as it pursued this strategy during the late 1990s.
- ⁷⁷ The problems of the 'global bank' strategy are illustrated in the case study of ABN Amro in South Africa in Gelb & Black (2004b).
- ⁷⁸ In the mid-80s, South African banks had at least eight representative offices and branches in the UK and Switzerland, as well as others in New York, while at the end of 1994, there were 40 foreign representative offices and 6 subsidiaries in South Africa.
- ⁷⁹ Health insurance has been an exception to this: Discovery Health was started only in 1992 and is now the largest provider in South Africa with around 40 percent of the market.
- ⁸⁰ It is worth noting that two Nigerian banks, Oceanic and Firstbank, opened representative offices in China in July 2009. Firstbank already had offices in London and Paris and is funding Chinese investment in Nigeria.
- ⁸¹ Its operations were in London, New York, Hamburg, Shanghai, Hong Kong and Singapore, Namibia and Zimbabwe plus two recent partial acquisitions in Tanzania and Mozambique.
- ⁸² Rob Leith interview with Summit TV, October 25 2007.
- ⁸³ This is a smaller share than in South Africa where the big four had 84 percent of assets in 2004.
- ⁸⁴ This paragraph is based on Naughton (2007), chapter 19.
- ⁸⁵ Data from World Trade Atlas, processed by Trade Law Centre (Stellenbosch), www.tralac.org.za.
- ⁸⁶ See DI900 returns for January 2001 on the SARB website, www.resbank.co.za.
- ⁸⁷ The New York and Sydney offices were turned into branches in 2008, and the London office into a subsidiary. A branch was also opened in Ho Chi Minh City in Vietnam.
- ⁸⁸ The original motive for the FDI Database was the need for a sample frame for surveys related to FDI, given the lack of a comprehensive list (official or unofficial) of foreign investors in South Africa or South African outward investors.
- ⁸⁹ This means that 'entrepreneurial FDI' is a distinct category.
- ⁹⁰ When engaged in multi-year contracts, the firm will send equipment and (high-skill) personnel to the host country, and therefore it seems appropriate to regard it as an investor. It would be inappropriate to regard construction firms which engage in long-term contracts as withdrawals once the contract as complete, as such firms will generally seek other contracts in the host country.